



HRVATSKA BANKA ZA OBNOVU I RAZVITAK

**2020 – 2024 Business Strategy  
of the Croatian Bank for Reconstruction and  
Development  
Version 2.0**

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# Abbreviations

<b>Abbreviation</b>	<b>Description</b>
<b>APN</b>	Agencija za pravni promet i posredovanje nekretninama – Croatia Real Estate Agency
<b>Bpi</b>	Bpifrance
<b>CEB</b>	Council of Europe Development Bank
<b>CB</b>	Commercial banks
<b>CROGIP</b>	Croatian Growth Investment Programme
<b>CVCi</b>	Croatian Venture Capital Initiative
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EIAH</b>	European Investment Advisory Hub
<b>EIB</b>	European Investment Bank
<b>EIF</b>	European Investment Fund
<b>ELENA</b>	European Local Energy Assistance
<b>EMDE</b>	Emerging Market and Developing Economies
<b>ESIF</b>	European Structural and Investment Funds
<b>FGS</b>	Fondovi za gospodarsku suradnju – Economic Cooperation Funds
<b>FI</b>	Financial instruments
<b>EU</b>	European Union
<b>FZOEU</b>	Fond za zaštitu okoliša i energetska učinkovitost – Environmental Protection and Energy Efficiency Fund
<b>GDP</b>	Gross Domestic Product
<b>HAMAG-BICRO</b>	Hrvatska agencija za malo gospodarstvo, inovacije i investicije – Croatian Agency for SMEs and Investments

<b>Abbreviation</b>	<b>Description</b>
<b>HBOR</b>	Hrvatska banka za obnovu i razvitak – Croatian Bank for Reconstruction and Development
<b>HGK</b>	Hrvatska gospodarska komora – Croatian Chamber of Economy
<b>HOK</b>	Hrvatska obrtnička komora – Croatian Chamber of Trades and Crafts
<b>IaaS</b>	Infrastructure as a Service
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>ICT</b>	Information and Communication Technology
<b>IFIs</b>	International financial institutions
<b>IT</b>	Information Technology
<b>KPI</b>	Key Performance Indicator
<b>LRGUs</b>	Units of local or regional government
<b>MFF</b>	Multiannual Financial Framework
<b>NCCF</b>	Natural Capital Financing Facility
<b>NPBI</b>	National Promotional Banks and Institutions
<b>PE</b>	Private Equity
<b>PESTEL</b>	Political, Economic, Social, Technical, Environmental and Legal Analysis
<b>Public institution</b>	Implies state administration bodies, public service organisations and companies and other forms of organisations in exclusive or partial (majority or minority) ownership of the state, regional and local units as well as other public law legal entities established for the purpose of performing public service
<b>PwC</b>	PricewaterhouseCoopers
<b>RDI</b>	Research, Development and Innovation
<b>R&amp;D</b>	Research and Development
<b>RPA</b>	Robotic Process Automation
<b>RRF</b>	Recovery and Resilience Facility

<b>Abbreviation</b>	<b>Description</b>
<b>SRSP</b>	Structural Reform Support Programme
<b>STEM</b>	Science, Technology, Engineering, and Mathematics
<b>SWOT</b>	Strength, Weaknesses, Opportunities and Threats Analysis
<b>UN</b>	United Nations
<b>VC</b>	Venture Capital
<b>WB</b>	World Bank

# 1 Introduction

The Croatian Bank for Reconstruction and Development (Hrvatska banka za obnovu i razvitak, hereinafter: HBOR) is the development and export bank of the Republic of Croatia with the primary task of promoting the development of the Croatian economy. Through its operations, within its powers and competences, HBOR promotes systematic, sustainable and balanced economic and social development in accordance with the general strategic objectives of the Republic of Croatia. The main activities and goals of HBOR are determined in the Act on the Croatian Bank for Reconstruction and Development (hereinafter: HBOR Act).

Considering the dynamic and constant changes in the domestic and international markets, HBOR continuously adapts its activities. In 2018, in order to further strengthen efficiency and transparency in support of the development of the Republic of Croatia, HBOR launched a project of drafting the Business Strategy of HBOR for the coming five-year period in cooperation with the European Commission under the Structural Reform Support Programme (SRSP). Taking into account the conditions of the SRSP implementation, the European Commission has selected the company PricewaterhouseCoopers (hereinafter: PwC) as the project implementing entity. Proposals and documents delivered under the project by the PwC (PESTEL Analysis, Analysis of Market Needs and Gaps, Comparative Analysis of Development Banks' Operations, SWOT Analysis) are the basis for the drafting of HBOR's 2020-2024 Business Strategy.

HBOR's 2020-2024 Business Strategy (hereinafter: Strategy) is comprised of the following chapters:

Chapter 1: Description of HBOR's Vision, Mission, Organisation (Corporate) Values and Strategic Goals analyses HBOR's key values and operating principles as well as strategic goals for the 2020-2024 period. The strategic goals are based on the needs of the Croatian economy and its public and private sectors and they cover the areas where market failures are pervasive and that are consequently underserved by existing market players or not served at all.

Chapter 2: Business and Operating Model describes HBOR's business and operating model as well as the key initiatives aiming at efficiently covering the identified market needs and strategic goals. Besides, three key strategic enablers necessary for the successful attainment of the goals have been analysed.

Chapter 3: Strategic Action Plan presents a visual overview of the proposed initiatives, their expected timeline and interdependencies.



# 2 Vision, Mission, Values and Strategic Goals

## 2.1 Vision

National promotional banks and institutions (NPBIs) operate with an intention to promote investment that will lead to stronger economic and social growth, creation of value added and reduction of adverse economic, social and environmental developments at national and regional levels. With their expertise and knowledge of local business environment, NPBIs carry out financial, development and promotional activities entrusted to them by the states at central, regional or local levels. In this context, NPBIs also have the role of key strategic partners of the European Commission and other EU and international promotional institutions, such as EIB, CEB, EBRD, IBRD, etc.

HBOR operates as the national promotional and export bank and export credit agency aiming primarily to strengthen the competitiveness of the domestic economy and to meet the needs of small, medium-sized, medium-capitalised and large enterprises, exporters, local and regional government units as well as other public or private participants in the economy of the Republic of Croatia. In addition to the above, considering the need for structural changes in the domestic economic system, HBOR will in the coming five-year period also pay additional attention to proactive, systematic and sustainable promotion of the development of the innovation environment in the Republic of Croatia, promotion of the development of the financial market, promotion of sustainable regional social and economic development as well as overall economic and social goals of the Government of the Republic of Croatia.

Beside the activities aimed at the attainment of the national and EU objectives, additional focus will be on the goals set by the UN's 2030 Agenda for Sustainable Development<sup>1</sup> and the latest climate goals determined in the Paris Agreement<sup>2</sup>.

Following the aforementioned, in the years to come, HBOR's vision is to become a:

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***Spark of Croatia's innovation and sustainable growth***

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## 2.2 Mission

Mission statement defines the manner in which an organisation's vision is attained. Considering permanent changes in domestic and international business environments as well as current and future needs of public and private sectors, HBOR's mission will be to:

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***Proactively support the development of Croatia***

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<sup>1</sup> [https://www.un.org/ga/search/view\\_doc.asp?symbol=A/RES/70/1&Lang=E](https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E).

<sup>2</sup> [https://unfccc.int/sites/default/files/english\\_paris\\_agreement.pdf](https://unfccc.int/sites/default/files/english_paris_agreement.pdf).

By taking a proactive approach to identifying the needs of the domestic market as well as by monitoring changes in international markets, HBOR will support the overall development of Croatia. HBOR's proactivity involves constant interaction with key stakeholders and identification of their needs that are not adequately covered due to market failures. Through the exchange of experiences with other national promotional banks and institutions, export credit agencies and international institutions, HBOR will seek innovative solutions to eliminate market failures and support the development of Croatia.

### 2.3 Values and operating principles

For business entities to successfully accomplish their mission, it is of crucial importance that a set of organisational values is established. These values are the basis for the organisation's vision and culture. Organisational values determine the notion of acceptable actions both within the organisation in terms of activities and behaviours of organisation's members and of products and services provided to clients as well as outside the organisation in terms of values of clients and stakeholders with whom the organisation cooperates. Organisational values are a mirror of what we encourage and value with respect to our current and future employees and to our own business. Considering the role and goals of HBOR as the national promotional and export bank acting in the public interest of the systematic, sustainable and balanced economic and social development of the Republic of Croatia, the organisational culture, which will enable the fulfilment of HBOR's vision and mission, is based on the following values:

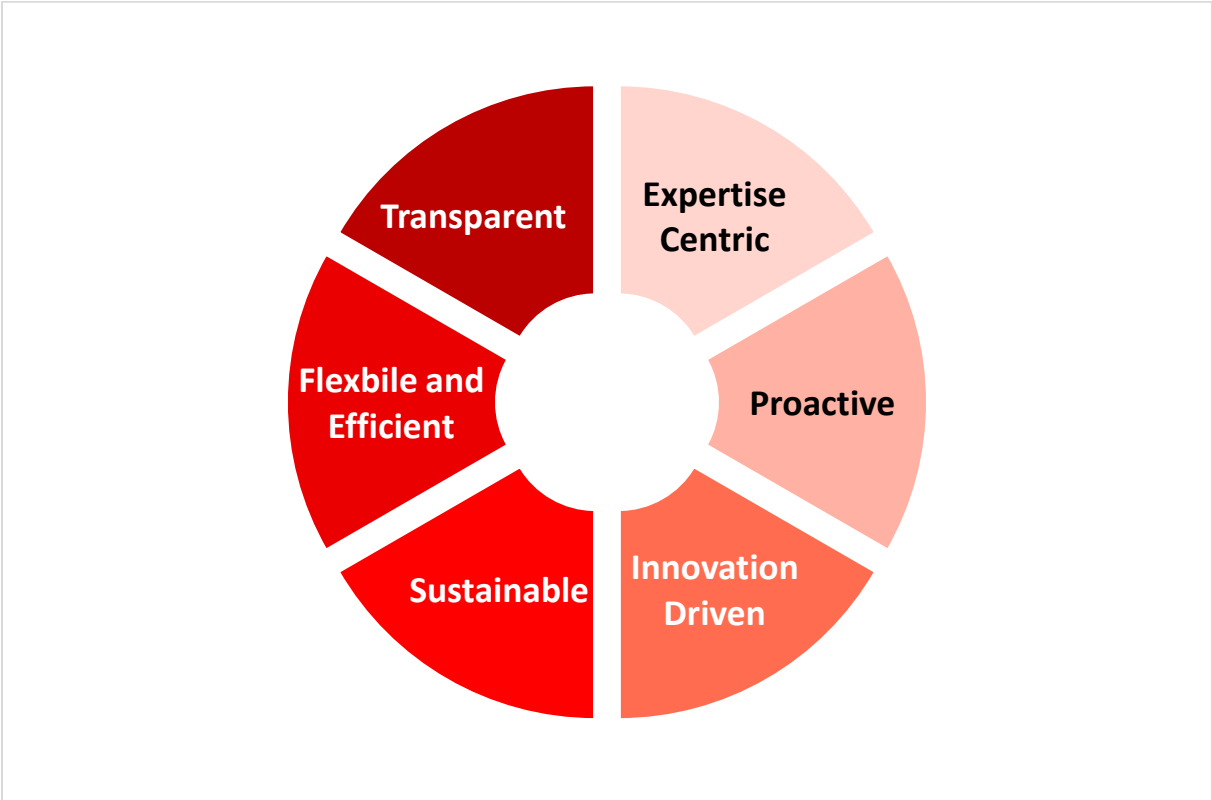


Figure 1: Organisational values of HBOR

### ***Expertise centric***

Under the activities established by the HBOR Act, HBOR shall operate as a competence centre for financial structuring and implementation of projects for the public and private sectors by providing users an easy access to financial products, to information regarding available funding sources and to other information relevant for the attainment of the goals set forth in the HBOR Act and this document.

Our expertise is based on the knowledge and skills of our employees, to which we pay special attention. We invest considerable own resources in the development of our employees and we effectively use other available resources, such as resources of the EU funds and international financial institutions. We will continue to encourage our own expertise and continuous pursuit of excellence through significant investment in the education and training of our employees who are the basis of our success.

### ***Proactive***

A proactive approach is one of the key values that will be extremely important for HBOR in the next five-year period. Namely, the role of promotional banks and institutions is to recognise the needs of the domestic economic system in a timely manner, which can be achieved only by a proactive approach to the gathering of information through market research, communication with key stakeholders, development and application of new products and presentation of HBOR's impacts on the economy in general. Proactivity as an approach and a characteristic of an organisation and employees is permeated through all our activities and organisational values, consequently also through HBOR's strategic goals.

### ***Innovation driven***

Innovation and support for innovative projects are among the key prerequisites for creating higher value added, increasing competitiveness, ensuring long-term sustainability and stable development of the domestic economy. Given the lower intensity of investment in research, development and innovation in the domestic economy so far, in the coming five-year period, HBOR will pay a special attention to systematic support for innovation so that it will become an indispensable part of the country's business culture.

HBOR will promote innovation also by developing innovative financial products that will foster cooperation among various stakeholders in the Croatian business, public and scientific environment and support the development of the domestic financial market.

By integrating innovation into own values and organisational culture, HBOR further emphasises continuous improvement, proactiveness and progress as key leverage points for own business and success.

### ***Sustainable***

Economically, environmentally and socially sustainable development is one of the main values of national, regional and global development. Regardless of whether it is about sustainable financing and orientation towards the long-term well-being of the whole community, or whether it is about HBOR's internal/institutional sustainability, HBOR will strive to provide services, offer products and perform activities that contribute to the sustainable development of the society and that are financially justified in terms of HBOR's sustainable operations.

In the coming five-year period, HBOR will focus on the development of sustainable finance in the Croatian market as one of the preconditions for the long-term well-being of the entire community at both national and regional levels.

HBOR will carry out all the above activities by taking into account financial sustainability of the Bank's operations.

### ***Flexible and efficient***

In order to achieve its goals with respect to the growth of the entire Croatian economy, HBOR will, in the coming five-year period, put greater efforts into the harmonisation of its organisational structure and processes with good banking practices and practices of other promotional banks with an objective of increasing efficiency of its operations and ensuring more flexible access to its customers.

A more efficient use of technology is an important component of the contribution to the successful attainment of goals.

### ***Transparent***

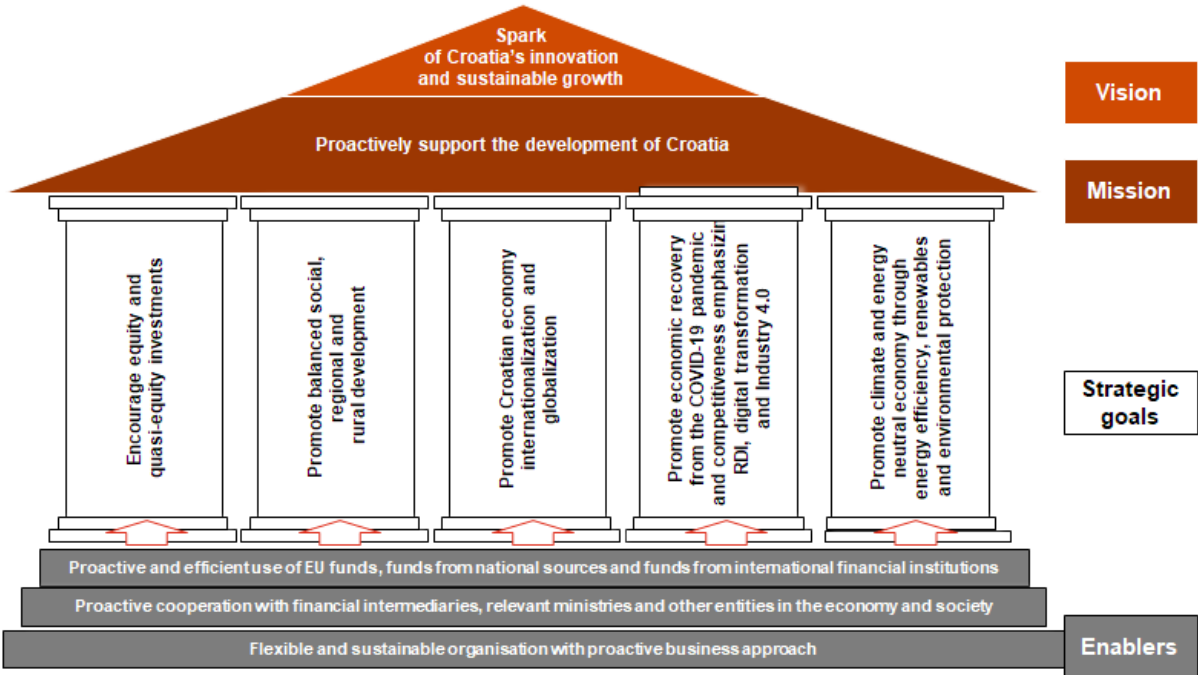
Since HBOR as a financial institution owned by the Republic of Croatia supports business and social environments, one of HBOR's core values is the transparency of activities, towards both internal and external environments. This includes continuous reporting on activities and clear and informative communicating with all internal and external stakeholders. Furthermore, HBOR will continue to measure and publish its annual results in terms of economic effects achieved in the previous year. HBOR will strive to increase positive impacts and reduce adverse impacts on the environment as well as to appropriately manage human and environment risks arising from HBOR's activities. Business transparency will continue to be ensured through regular audits of operations and through the development of a system of reporting on the impacts of HBOR's activities on the overall development of the Republic of Croatia and society as a whole.

## **2.4 Strategic goals and key strategic enablers**

Considering the fact that mission and vision statements are based on the specific conditions and unfulfilled needs of the Croatian economy and its business environment as well as on European and global trends (e.g. promotion of sustainable, green and climate neutral development), the following text defines the **strategic goals** that HBOR will strive to attain in order to achieve the greatest possible positive effects on the Croatian economy.

Besides the strategic goals, the following text also defines the key **strategic enablers** that focus on process and organisational changes that will enable a more efficient and more proactive pursuit of strategic goals.

Figure 2: HBOR's strategic goals and enablers



2.4.1 Strategic goals

**Promote development of equity and quasi-equity market in the Republic of Croatia**

The market of the Republic of Croatia focuses primarily on traditional sources of funding: commercial banks and leasing companies. Without diminishing the importance of traditional sources of funding, it is necessary to follow the experience of more developed countries and make further efforts to develop alternative sources of funding in order to increase the stability and availability of financial resources in the long term. Although the shift in the development of the venture capital market (VC, PE) has been recorded over the past few years, it has still not reached the levels sufficient for meeting the needs of the domestic economy.

Alternative sources of finance are particularly important for the current and future development of new generations of innovative entrepreneurs raised in the conditions of strong development of information and telecommunication technologies as well as for the capital growth of existing economic

entities as a precondition for their stable financial position and growth. The development of innovative forms of financial instruments is the basis for boosting investment in research, development and innovation.

In order to ensure strong support for domestic micro, small, medium-sized and medium-capitalised enterprises (existing and newly established), HBOR will, in the coming five-year period, foster the development of equity and quasi-equity markets in the Republic of Croatia on the basis of experience, available national and EU funds and cooperation with multinational financial institutions (EIB Group).

HBOR's support for market development will be reflected both through the investment of own funds and other available national<sup>3</sup> and EU funds (in funds managed by independent fund managers) and through the strengthening of expertise and exchanging of experiences and standpoints among the market key stakeholders.

### ***Promote balanced and sustainable economic and social regional, rural and urban development of the Republic of Croatia***

Large parts of the Republic of Croatia are lagging behind the EU average and the national average when it comes to economic development and standards of living, which ultimately leads to depopulation and degradation of underdeveloped areas. Depopulation is particularly acute in rural areas, on the islands and in the mountain areas of the Republic of Croatia. The increased risk in further decline in economic activity as well as the risk of further depopulation is particularly visible in rural areas, but also in smaller urban centres that were affected by strong earthquakes at the end of 2020. A series of strong and less strong earthquakes caused significant material and non-material damage to areas that had even before earthquakes had weaker development of economic and social activities.

In order to contribute intensely to balanced regional development, HBOR will put special emphasis on encouraging the development of underdeveloped areas in the coming five-year period by promoting the development of entrepreneurship (primarily micro, small and medium-sized enterprises) and by supporting the development of local and regional infrastructure (economic, communal and social). Special emphasis will be put on the recovery of economic activities in the areas affected by earthquake. In order to achieve this objective, HBOR intends to increase its cooperation with local and regional government units to promote investments and activities aimed at achieving positive local and regional results and growth.

Additional emphasis will be placed on supporting municipalities, cities and counties in the use of available EU funds (through specialised products and financial instruments of the EU) and with regard to other strategic projects relevant to the social and economic development of rural and urban areas by simultaneously respecting their differences and specific needs.

Besides, following the positive experiences and considering the available EU funds, support for investment in agriculture will be further provided as a basis for maintaining economic activity in rural areas.

### ***Promote Croatian economy internationalisation and globalisation***

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<sup>3</sup> National sources – funds of the central government (relevant ministries), local and regional government and other sources of public funds.

The market of the Republic of Croatia, being relatively small and completely open, has for many years been characterised by a strong imbalance between imports and exports (foreign trade deficit). Besides a limited focus of domestic entities on international markets, domestic exports are often characterised by exports of goods with lower value added (raw materials, semi-finished products), which further aggravates the problem. Also, most export activities are focused on a narrow range of regional markets or markets where domestic producers have traditionally been present. The efforts of the Croatian companies aiming to strengthen activities forming part of regional and global economic trends require considerable financial and organisational resources as well as adequate technical support, both to strengthen competitiveness and to raise the level of expertise and competence necessary to enter international markets.

Against this background, HBOR will (directly and/or in cooperation with commercial banks) further strengthen the support provided to exporters and the competitiveness of the domestic economy in international markets over the next five-year period. By developing new and adapting existing products intended to support exports (loans, guarantees, export credit insurance products, etc.) as well as by strengthening cooperation with relevant stakeholders in the domestic economy, HBOR will, as the only export bank and export credit agency in the Republic of Croatia, seek to remedy the detected market imbalances by providing stronger support for the internationalisation and globalisation of the Croatian economy.

In addition to supporting enterprises that are already present internationally, special support is planned for stronger internationalisation of small, medium-sized and medium-capitalised enterprises as drivers of economic growth and development.

***Promote economic recovery from the COVID-19 pandemic and competitiveness emphasising innovation, digital transformation and Industry 4.0***

Although the domestic market was marked by a recovery in investment activity in recent years, the emergence of the COVID-19 pandemic has strongly affected the overall decline in economic activities, including investment as one of the basic preconditions for the recovery of the national, regional, but also global economy. Although it is difficult to predict the medium- and long-term impact of the COVID-19 pandemic on global and regional market trends, the effects of the pandemic on the economy have necessitated investment in strengthening the economy's resilience to market disruptions and encouraging business model transitions by using modern and/or digital technologies. Investments in new products, technologies, research and development (innovations) as well as in general capacity building of business entities have again proved as a basis for local, regional and global competitiveness.

Considering the necessary recovery from the consequences of the COVID-19 pandemic and the strengthening of domestic economy investments, HBOR will strive to provide a stronger support for private sector investments in the next period by using all available sources of finance (public and private<sup>4</sup>). More efficient use of all available sources<sup>4</sup> of finance will enable the development of adequate financial products and services. Therefore, it is important to note that, in the coming period, better availability of financial instruments from EU funds is expected in addition to the available national

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<sup>4</sup> Public sources of finance represent available public sector funds such as HBOR's funds, budget funds, funds of other public (state-owned) institutions, EU funds, funds of national and multilateral financial institutions, etc. Private sources of finance represent available private sector funds such as funds of commercial banks, *leasing* companies, entrepreneurs, etc.

funds, which is why HBOR plans to further strengthen efforts aimed at the development and implementation of such instruments. Considering the fact that EU funds are used to provide support for a number of entities eligible for them (usually micro, small and medium-sized enterprises), it is extremely important to ensure additional sources of finance in cooperation with other public and private stakeholders in the domestic economic system (relevant ministries and other public institutions, commercial banks, etc.) for the purpose of providing comprehensive support to the overall development of the domestic economy.

Besides the overall need for stronger investment support, HBOR will pay special attention to financing innovative projects, digital transformation of the domestic economy and promotion of Industry 4.0. Taking into account the effects of the COVID-19 pandemic and the fact that innovations are moving at a slow pace in the Croatian business environment, HBOR will increase its focus on the development of innovative products in the next period. Due to the accelerated ICT development and the increasing emphasis on the development of the so-called “smart” systems and technologies, digital transformation, process automation and adaptation to new market circumstances have become absolutely indispensable for economic entities. The requirement for the Croatian companies to become more innovative and to transform themselves digitally calls for considerable financial resources and adequate technical support.

HBOR will not only develop financial products, it will also put additional efforts into strengthening the cooperation among public institutions (relevant ministries, HAMAG-BICRO, etc.), scientific community (universities, research centres, scientific institutes, etc.) and companies in order to enhance the overall innovation potential of the domestic economy and enable the more efficient transfer of R&D results into new products and technologies.

***Promote climate and energy neutral economy through energy efficiency, renewable energy sources and environmental protection***

The accelerated growth and development of the global economy, along with a number of positive elements, have some negative consequences. Mitigation of adverse climate and environmental consequences of economic growth and development is among fundamental objectives of the European Union and among overall global objectives. The emergence of the COVID-19 pandemic has indicated to the need for better and more sustainable management of natural resources, conservation of natural habitats and biodiversity. Frequent earthquakes in Croatia which began in 2020, bring into focus the need for seismic strengthening of buildings and generally, strengthening resilience to natural disasters. Better environmental protection, conservation of biodiversity, strengthening resilience to natural disasters, more efficient use of energy and further development of renewable energy sources are some of the key measures aimed at the development of a modern and sustainable economic system.

Although the Republic of Croatia has met its national and EU renewable energy targets, the planned further increase in the share of renewable energy sources within the EU energy sector poses new challenges to the Republic of Croatia.

Unlike with regard to the production of energy from renewable sources, the Republic of Croatia has a high energy intensity in the field of energy efficiency, which should be reduced by investing in the energy efficiency of buildings (public and private), transport and industry.



Besides, due to its geographical location, the Republic of Croatia is exposed to climate risks such as floods and forest fires, which makes it necessary to make additional investments in the protection of existing economic and social assets.

Taking into account the current and announced EU trends as well as the strategic long-term vision of a prosperous, modern, competitive and climate neutral national and EU economy, HBOR will, in the coming five-year period in cooperation with other relevant institutions and entities, strengthen its support for private and public entities in promoting energy efficiency, renewable energy sources, biodiversity, resilience to natural disasters and environmental protection as the key enablers of sustainable national and global development.

#### 2.4.2 Strategic enablers

The following three key strategic enablers are of crucial importance for the successful attainment of the above strategic goals.

##### ***Proactive and efficient use of EU funds, funds from national sources and funds from international financial institutions***

HBOR's available own funds increased by domestic and international funds raised on the basis of HBOR's multiannual successful cooperation (particularly cooperation with multilateral financial institutions such as EIB, CEB, IBRD, etc.) constitute the starting point for HBOR's sustainable operations in the future and for successful attainment of the above strategic goals. In addition to the aforementioned funds, in order to further strengthen the activities, it will be necessary to ensure higher availability of other national and EU funding sources in the next five-year period.

The COVID-19 pandemic has affected the need to provide additional national and EU sources of funding to enable faster recovery of economic activities, but also to strengthen the long-term resilience of the EU economy through a stronger transition to green and digital technologies. The need for stronger investment in the recovery and future resilience of the EU economy has resulted in the development of new EU initiatives. In addition to the funds available under the regular Multiannual Financial Framework 2021-2027 (MFF 2021-2027), the pandemic has influenced the development of a new model for fostering the recovery and resilience of the economy through the Next Generation EU initiative, primarily through the Recovery and Resilience Facility (RRF). Efficient use of available EU funds is one of the basic preconditions (backbone) for strengthening economic activities in the domestic economy, and the presented goals are largely in line with this strategic document of HBOR.

Although, since the accession of the Republic of Croatia to the European Union, EU funds have represented an irreplaceable source for the co-finance and promotion of the development of the majority of the above strategic goals, limited availability of such funds in terms of their own volume and with regard to individual strategic goals of HBOR (such as stronger internationalisation of the domestic economy, support to medium-capitalised and large enterprises) imposes the need to provide additional national sources of co-finance for HBOR's activities.

HBOR's activities and experience in using national sources of funding, centralised EU programmes and EU funds (programmes) available at the national level as well as funding from multinational financial institutions (such as EIB Group) represent the starting point for the attainment of the set strategic goals.

### ***Proactive cooperation with financial intermediaries, relevant ministries and other entities in the economy and society***

As an organisation, HBOR has a unique, pivotal role in promoting the Croatian economy. Given the need described above to use the available national, EU and private sources of funding more effectively, the necessity of strengthening HBOR's cooperation with relevant national, EU and international institutions, both in the public and private sectors, becomes evident.

Proactive cooperation with relevant ministries and other public institutions responsible for the development of the domestic economy (HAMAG-BICRO, Environmental Protection and Energy Efficiency Fund, Water Management Legal Entity Hrvatske vode, etc.) is the basis for the successful achievement of economic and social goals of the Government of the Republic of Croatia.

Proactive co-operation with EU institutions and with multilateral financial institutions, international associations and organisations, export-credit agencies and others is the basis for sharing knowledge, experiences and ensuring adequate sources of finance necessary for the promotion of stakeholders in the domestic economic system.

Proactive cooperation with domestic financial institutions (banks, leasing companies and companies for the management of alternative forms of financing as well as other participants in the financial market of the Republic of Croatia) is the basis for successful and efficient distribution of available finance, increase in the availability of funding sources for final borrowers and development of domestic financial market in the long run.

Proactive cooperation with entrepreneurs, associations of entrepreneurs, chambers, local and regional government units, scientific community, non-governmental organisations and others is the foundation for the timely recognition of the economic and social needs of the long-term and sustainable development of the Republic of Croatia as well as the foundation for the future development of the domestic economy based on a higher level of innovation and R&D.

### ***Flexible and sustainable organisation with proactive business approach***

In order to successfully achieve the above financial and organisational enablers, and consequently the strategic goals, it is necessary to change the procedures of the operators performing the respective activities. Although HBOR's operations have confirmed the ability of HBOR to manage the organisation sustainably and successfully in the long term, it is necessary to develop, in the next five-year period, additional abilities and capacities for the bank's future sustainable operations. Namely, to ensure even more efficient use of available funds, HBOR's internal procedures, processes and actions need to be harmonised with good banking and business practices in the areas of its business. This implies the implementation of organisational changes and upgrading of existing business processes and procedures that will enable faster and more flexible responses of the organisation to current and future development needs of the Republic of Croatia.

Having the above in mind, it is planned to adapt and align the bank's key organisational and business processes with the good business practices during the next five-year period in order to create a more efficient, flexible and proactive business system.



# 3 Business & Operating Model

HBOR's business and operating model for achieving HBOR's vision, mission and strategic goals is based on the implementation of key strategic initiatives. Strategic initiatives represent broader groups of business activities, the detailed implementation and elaboration of which is described in the related operating plans of HBOR's Management Board.

Strategic initiatives are structured within each individual strategic goal and strategic enabler. Due to the fact that individual strategic initiatives can contribute to a number of strategic goals, they are described under the strategic goal where their greatest contribution to the achievement of the respective goal is expected.

## 3.1.1 Promote development of equity and quasi-equity market in the Republic of Croatia

### 3.1.1.1 Rationale

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As the youngest EU member state, Croatia has underdeveloped venture capital and private equity market (VC, PE). The Croatian financial market is dominated by traditional sources of finance. Although the financial conditions of traditional sources of finance have significantly improved over the past few years (a significant decrease in interest rates), their availability still largely depends on the availability of security instruments. Given the increasingly stringent regulations, traditional financial institutions (commercial banks, leasing companies and others) have and will have very limited capacities for taking higher levels of risk.

SWOT Analysis and Analysis of Market Needs and Gaps indicate that Croatian micro, small, medium-sized and medium-capitalised enterprises, particularly innovative ones with a higher degree of risk (start-ups, scale-ups or enterprises in propulsive ICT sectors) or the ones operating in sectors with lower return rates, face a challenging environment in terms of access to adequate source of finance.

Analyses of market gaps conducted in 2017 and 2018<sup>5</sup> by the EIF established that the needs for investing venture capital, equity and quasi-equity in the market of the Republic of Croatia were as follows:

- Private equity – EUR 86 million annually during the next 5 years,
- Venture capital – EUR 43 million annually during the next 5 years, of which EUR 10 – 15 million relates to the earliest development phases, i.e. pre-seed and seed capital.

The domestic market is also characterised by higher levels of corporate debt caused by poor diversification of funding sources and the prevalence of bank loans. According to information from the Croatian National Bank, approximately one-third of corporate debt is unsustainable, indicating a strong need for the development of private equity market.

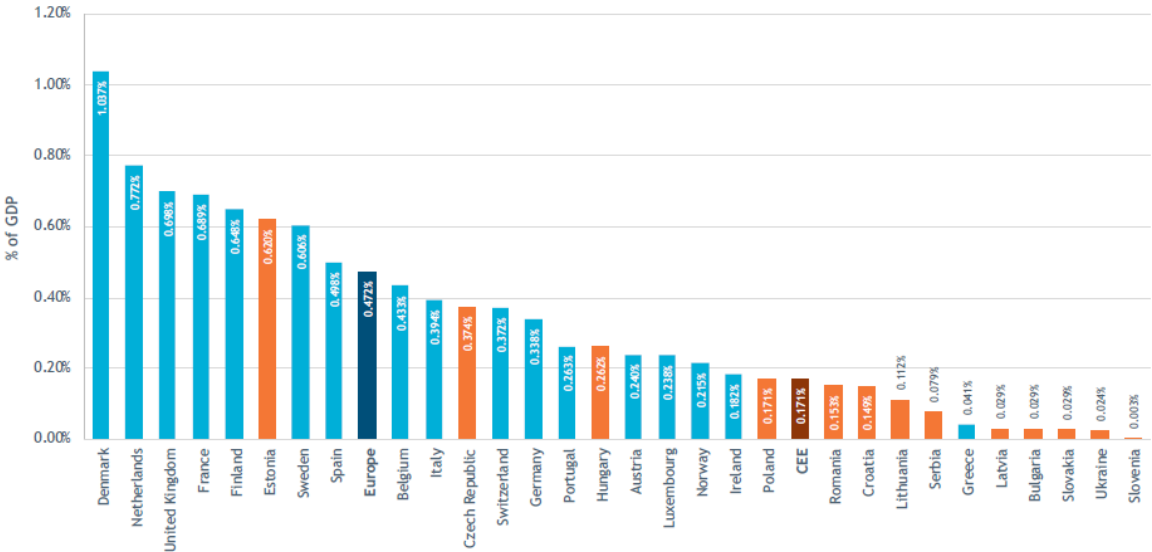
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<sup>5</sup> Analysis of private equity market: "Croatia Market Study 2017: Market Data and GP Survey, March 2017" and Analysis of VC: "Croatia VC Market Study: Market Data and Survey, January 2018".

Access to finance is hampered in part by the limited supply of traditional sources of finance (a consequence of historically higher interest rates, insufficient collateral and higher levels of corporate debt) and by the weaker inclination of domestic micro, small, medium-sized enterprises and mid-caps towards various forms of equity and quasi-equity sources of finance.

The poor development of the capital market and the limited scope of opportunities for selling interests result in very limited investment activity of private equity (PE) and particularly of venture capital (VC). According to the available data for 2018, private equity investment in the market of the Republic of Croatia accounts for merely 0.14 % of GDP, which is three times lower than the EU average and many times lower than the data for more developed member states.

Graph 1: Private equity market activity in EU countries measured by share in GDP in 2018



Source: Invest Europe/EDC for investment data. IMF – World Economic Outlook Database for GDP data

A relatively small number of private equity transactions indicates the need for stronger institutional support for the development of the private equity market in terms of both supply and demand. The development of the venture capital and private equity markets is one of the key enablers not only for a strong development of innovative projects implemented by start-up entrepreneurs and R&D projects in general but also for a strong growth of fast-growing companies as well as their transition from small to medium-sized and large enterprises.

Also, in the last few years, there has been an increase in the growth and development of a new generation of entrepreneurs raised in the environment of strong ICT growth that are less inclined to formal, traditional sources of finance.

Additionally, it is important to point out that a growing number of family businesses established in the 1990s are facing generation change and succession issues. Namely, as the initial founders of companies retire, the issue of fresh capital is becoming increasingly significant due to the necessity for the maintenance of business continuity of existing economic entities having in mind the fact that the fresh capital cannot generally be raised from traditional sources of finance.

Positive changes in the private equity market could have a long-term positive impact on the development of activities in the regulated capital markets (stock exchanges), which have experienced a significant decline in the last ten years.

In addition to the available national funds, the potential use of available EU funds (through financial instruments and centralised EU programmes) and cooperation with EU institutions already possessing considerable expertise in the field of private equity finance (EIF, Bpifrance, Finnvera, etc.) provide support for opportunities for faster growth of the venture capital and private equity markets. Stronger support for various types of financial instruments, including equity and quasi-equity instruments (mezzanine finance)<sup>6</sup> is expected under the upcoming MFF 2021-2027.

Given HBOR's special role in the domestic financial market, HBOR has started supporting the development of the Croatian private equity market already in the past years. HBOR has established an organisational unit specialising in venture capital funds, equity and quasi-equity funds that has been actively dealing with the implementation of initiatives in this field since its establishment.

In October 2010, the Government of the Republic of Croatia appointed HBOR a qualified investor to act on behalf of the Government for the account of the Republic of Croatia with respect to investing in the Economic Cooperation Funds (Fondovi za gospodarsku suradnju – FGS) as private equity funds. The initiative supported the establishment of five Economic Cooperation Funds<sup>7</sup> that provided HRK 1.8 billion from the budget of the Republic of Croatia in cooperation with other private investors according to the *pari passu* principle (the highest share of the Republic of Croatia in a fund is 50 %) for investing in the restructuring, growth and development of existing or newly-established companies. Considering the fact that this was the first public initiative to support the development of the venture capital market, active participation in the implementation of the initiative enabled HBOR to gather the first institutional experience in the field of structuring and managing venture capital and private equity funds.

Recognising the experience in the field of implementing the Economic Cooperation Funds and the continued need to develop domestic venture capital market, HBOR became a founding member of the EIF-NPI<sup>8</sup> Equity Platform in September 2016. The agreement signed in January 2019 between the EIF and HBOR obliged each of the signatories to invest EUR 35 million for the financing of the jointly developed programme called the Croatian Growth Investment Programme (CROGIP)<sup>9</sup>. It is expected that the amount of EUR 70 million of joint investment would further accelerate private sector investment in private equity funds.

At the same time, HBOR approved an investment of EUR 2 million for the Croatian Venture Capital Initiative (CVCi) launched by the Croatian Ministry of Regional Development and EU Funds and the EIF. The CVCi Fund is managed by the company Fil Rouge Capital, and a substantial amount of funding has

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<sup>6</sup> *Mezzanine* financing is a hybrid of debt and equity financing that gives the lender the right to convert to an equity interest in the company in case of default. Source: <https://www.investopedia.com/terms/m/mezzaninefinancing.asp>.

<sup>7</sup> Economic Cooperation Funds are open alternative investment funds with private offering that are established and operate in accordance with the Alternative Investment Funds Act. At the moment, managers of alternative investment funds who manage economic cooperation funds are: Honestas Private Equity Partneri d.o.o., Prosperus-invest d.o.o., Quaestus Private Equity d.o.o. and Inspire Investments d.o.o. Refer to: <https://www.hbor.hr/en/economic-co-operation-funds-ecfs/>.

<sup>8</sup> EIF-NPI Equity Platform was launched by the EIF under the Investment Plan for Europe as a joint initiative with the national promotional institutions of the European Union for the purpose of providing support for the establishment of a well organised European venture capital market to the benefit of small and medium-sized enterprises in Europe.

<sup>9</sup> CROGIP is the financial programme that has been established by the EIF under the EIF-NPI Equity Platform whose founding members are the EIF and HBOR.

been provided from the currently available EU funds, which is a clear indication of the possibilities for development of similar initiatives in the MFF 2021-2027.

Given the above needs for the development of the domestic venture capital, equity and quasi-equity markets, HBOR's current activities and experiences, HBOR's good cooperation with the relevant EU institutions as well as potential future EU funds available for the development of new initiatives in the field of equity and quasi-equity markets, **the promotion of the development of equity and quasi-equity markets has become one of HBOR's key strategic operating goals for the coming five-year period.**

Stronger support for the attainment of the aforementioned strategic goal will enable faster development of the domestic financial market as well as innovative and fast-growing entities market.

#### 3.1.1.2 Key strategic initiatives

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In line with the above described needs for stronger development of the domestic equity and quasi-equity markets, the key strategic initiatives necessary to achieve the strategic goal are outlined below. The implementation of all strategic initiatives is foreseen for the next five-year period.

#### **Strategic initiative 1 – Promotion of the development of equity and quasi-equity market in the Republic of Croatia**

As noted above, there has been a relatively small number of equity and quasi-equity transactions so far, which indicates the need for stronger support for development in terms of both supply and demand. Consequently, one of HBOR's key strategic initiatives in the coming five-year period will be **proactive support for raising the level of information, knowledge and competence of entities developing the supply in the domestic equity and quasi-equity market** (investors, management companies, regulators, etc.) **and of entities developing the demand in the equity and quasi-equity market** (existing and future entrepreneurs as well as the public in general).

The implementation of the above strategic initiative implies, among other things, the proactive performance of the following activities:

- *Positioning of HBOR as **key public entity behind the activities** aimed at developing equity (VC, PE) and quasi-equity markets in the Republic of Croatia*
- *Organisation of appropriate information, education and professional training programmes, seminars, conferences and other events aimed at raising awareness, knowledge and expertise pertaining to equity and quasi-equity markets for investors (institutional and private), management companies, regulators, interest associations and other key stakeholders in the equity and quasi-equity markets*
- *Stronger connection and promotion of cooperation among the relevant stakeholders in the domestic and international equity and quasi-equity markets*
- *Education of entrepreneurs and the general public on equity and quasi-equity finance options*
- *Providing information on the capital market in Croatia and the region.*

Particular importance in the implementation of the above activities will be attributed to the long-term partnership and cooperation of HBOR with relevant **international institutions** and entities as potential transferors of knowledge, experience and competence necessary for the development of the equity and quasi-equity markets.

Besides the available finance, HBOR will endeavour to provide additional funds under other national, EU, public or private sources of finance in order to implement the above activities and to achieve a larger volume of activities and, consequently, a faster market development.

### **Strategic initiative 2 – Implementation of existing and development of new equity and quasi-equity funds in the Republic of Croatia**

Besides the activities of promoting the development of equity and quasi-equity market in the Republic of Croatia, HBOR will, in the coming five-year period, target more of its resources at the successful implementation of existing and development of new equity and quasi-equity funds.

Particular attention will be paid to the development of funds aiming at:

- *Development of start-up entrepreneurs*
- *Development of ICT activities*
- *Digital transformation of the economy*
- *Transfer of technologies, research and development*
- *Energy efficiency and renewable energy sources*
- *Sustainable transport and transport infrastructure*
- *Etc.*

HBOR will independently or in cooperation with other domestic and international institutions analyse market needs and proactively initiate, and invest funds in, the development of new funds (own or initiated by third-parties) relevant to the development of the domestic financial market and the markets of innovative, fast-growing industries.

At the same time, HBOR will support the development of regionally focused equity and quasi-equity funds that will contribute to a stronger internationalisation of the domestic economy.

For the successful implementation of the above activities, in addition to the available HBOR's funds, in cooperation with the relevant ministries, it is necessary to provide additional finance from the expected EU funds under the MFF 2021-2027 and to position HBOR as the development driving force for future financial instruments targeted at equity and quasi-equity investment market. In cooperation with other domestic and international institutions, HBOR will seek to provide additional funds for investment by private and/or other national sources of funding (e.g. funds from repayments generated by investment activities of the Economic Cooperation Funds).

Proactive and timely positioning of HBOR is a key enabler for the implementation of the strategic initiative and the future initiatives aimed at the development of equity and quasi-equity market under national and European programme documents dealing with EU funds in the coming MFF 2021-2027.

### **Strategic initiative 3 – Development of HBOR's internal capacities and competences in the field of equity and quasi-equity**

The main enabler for the successful implementation of the two above strategic initiatives is the existence of appropriate internal capacities and competences of HBOR. Even though a specialised organisational unit for the development of equity and quasi-equity market is in place, and even though acceptable levels of knowledge and competences have been attained, HBOR's internal capacities need



to be further upgraded in order to be able to provide stronger support for the development of equity and quasi-equity instruments.

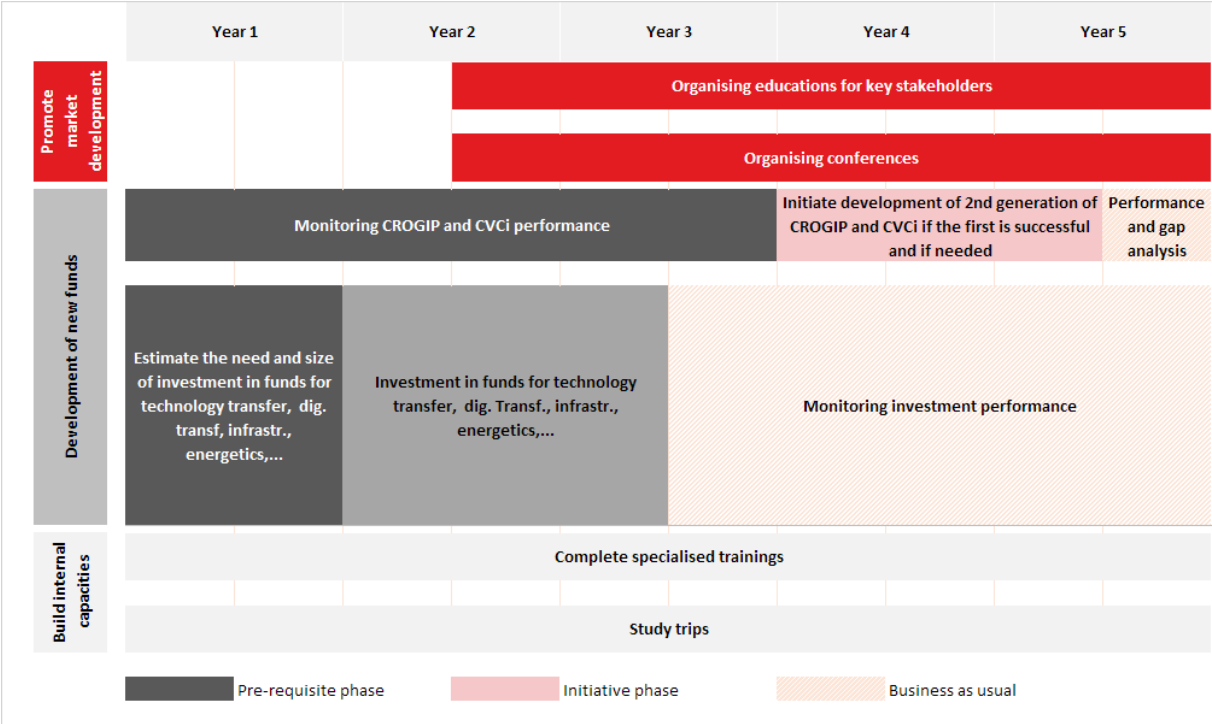
In the line of the above, in the coming five-year period, HBOR plans to put significant efforts into:

- *Strengthening of organisational capacities of HBOR*
- *Strengthening of competences of relevant employees – education and training of the Bank’s employees*
- *Exchanging of experiences with other international and national market development entities, particularly the representatives of the EIF*
- *Launching of initiatives for cooperation and development of joint ideas relating to investment areas together with promotional banks from neighbouring countries or countries with similar market needs*
- *Analysing of organisational improvements necessary for market development (founding of daughter companies, etc.).*

In addition to HBOR’s funds, for the purpose of implementing the strategic initiative, it is planned to proactively use national, international and EU funds available for technical assistance.

3.1.1.3 Prioritisation and timing

Figure 3. Five-year action plan – Promotion of the development of equity and quasi-equity market in the Republic of Croatia



### 3.1.1.4 Target market and planned sources of finance

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#### **Target market:**

- Start-up entrepreneurs, particularly in the ICT industry who have innovative projects
- Fast-growing micro, small, medium-sized and medium-capitalised enterprises
- Other public and private entities important for the economic and/or infrastructure development of the Republic of Croatia.

#### **Key sources of finance for the activities necessary for the realisation of the strategic goal:**

- Available HBOR's funds
- EU funds (centralised programmes and national allocations of EU funds)
- Other available national funds, including the possibility of using the funds from repayments generated by investment activities of the Economic Cooperation Funds.

## 3.1.2 Promote balanced and sustainable economic and social regional, rural and urban development of the Republic of Croatia

### 3.1.2.1 Rationale

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One of the main national and EU objectives is a long-term sustainable and balanced regional development as a precondition for a stable and sustainable social and economic environment. Sustainable and balanced regional development can also be seen within the framework of the necessity to develop rural and urban areas.

In statistical terms, the Republic of Croatia is divided into two NUTS 2<sup>10</sup> regions: Continental and Adriatic Croatia. However, in administrative terms, the Republic of Croatia consists of 21 units of regional government (20 counties and the City of Zagreb) and 555 units of local government (428 municipalities and 127 cities). A high number of local government units with limited economic and social resources often results in insufficient fiscal and institutional (organisational) capacities. Insufficient institutional and fiscal capacities, particularly in smaller local government units in underdeveloped areas, have an adverse impact on development opportunities and implementation of projects aimed at improving economic and social infrastructure (communal, educational, health care, telecommunication and other public infrastructure) as basic preconditions for long-term development.

According to the data contained in the Analysis of Market Needs and Gaps, the economic, communal and social infrastructure is much more developed in the cities, and the majority of the domestic economic potential, as measured by GDP, is concentrated in the City of Zagreb and the five largest counties. Namely, the City of Zagreb and the first five counties<sup>11</sup> account for approximately 68% of the total GDP of the Republic of Croatia (the City of Zagreb alone generates approximately 34% of the GDP of the Republic of Croatia). On the other hand, these 5 counties and the City of Zagreb make up only

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<sup>10</sup> Nomenclature of territorial units for statistics – the main regions of the EU for the application of EU regional policies (e.g. intensity of support). Source: <https://ec.europa.eu/eurostat/web/nuts/background>.

<sup>11</sup> These five counties measured by GDP per county are as follows: Primorsko-Goranska County (8.4 %), Splitsko-Dalmatinska County (8.3 %), Istarska County (6 %), Zagrebačka County (5.9 %) and Osječko-Baranjska County (5.6 %).

The first five counties measured by GDP per capita: City of Zagreb, Istarska County, Primorsko-Goranska County, Dubrovačko-Neretvanska County, Međimurska County.

Source: Croatian Chamber of Economy: Counties – Development Diversity and Economic Potential 2018/2019.

33% of the area and 55% of the population of the Republic of Croatia<sup>12</sup>. The level of GDP generated by the remaining 15 counties is below the average for the Republic of Croatia (Graph 2).

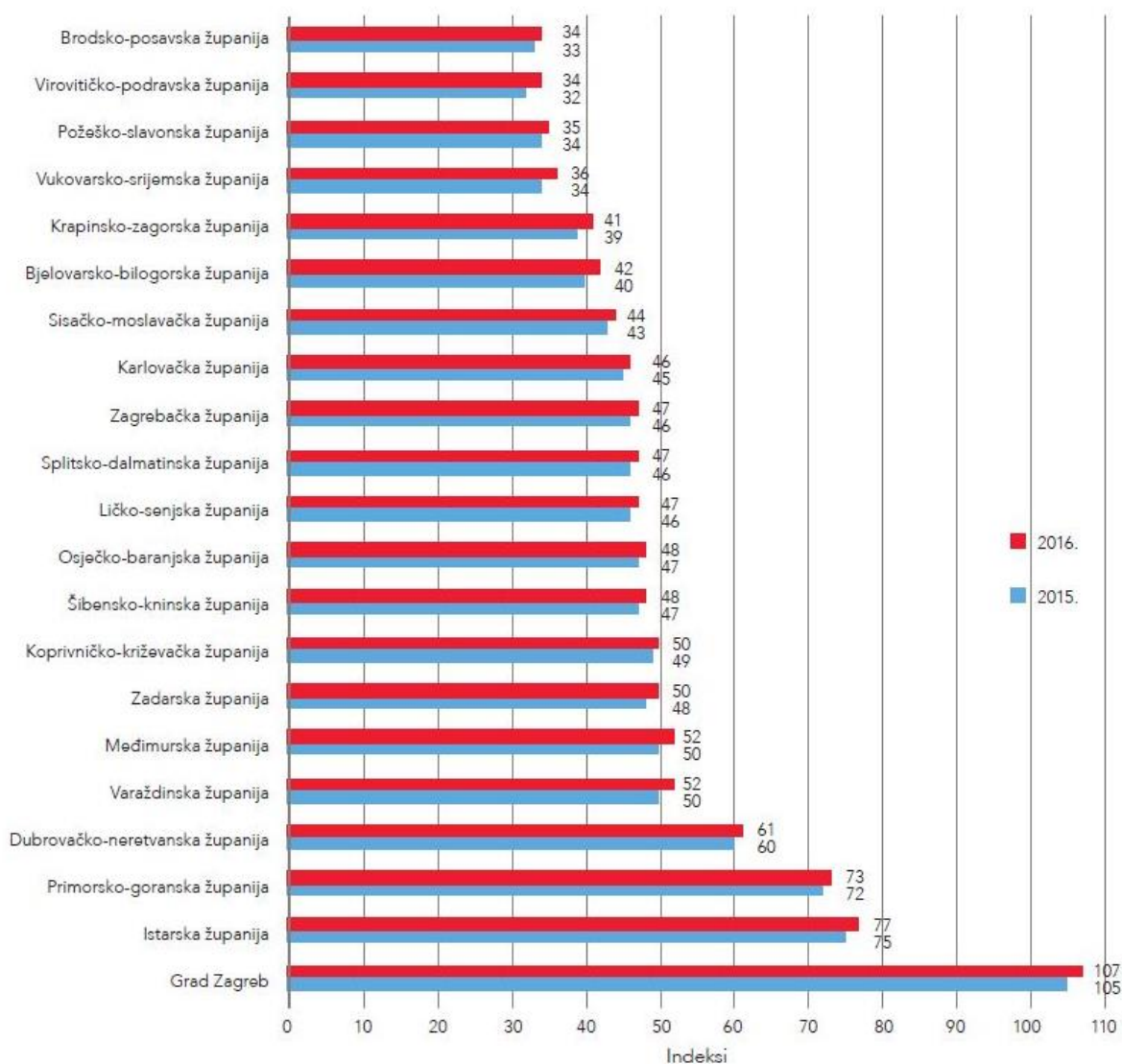
The City of Zagreb is at the same time the only regional government unit whose GDP per capita is higher than the EU average. Areas in eastern Croatia, hill or mountain areas, areas behind the narrow coastline, the islands and generally rural areas have been characterised by significant negative economic and demographic trends in the last 20 years that resulted in the further deepening of the differences in the level of development. Although some infrastructure improvements have been achieved in underdeveloped areas owing to the availability of national and EU grants, further growth in activities and investments in the public and private sectors is expected in order to change the current negative indicators of regional imbalances.

Support for the development of rural areas, which are particularly affected by the changes described above, has an important role in regionally balanced development. A decline in economic activities, together with a decline in the population in rural areas, strongly affects the long-term development of wider geographical areas as well as the ability to efficiently use natural resources. As almost the entire European Union has recognised this problem, support for rural development has been highlighted in the Multiannual Financial Framework 2014 – 2020 as one of the fundamental measures for the attainment of balanced regional development, and the continuation of the respective activities in the programming period 2021 – 2027 is to be expected. In this regard, special attention is paid to the development of agriculture and fisheries as key drivers of the development of rural areas and the islands, whereas additional funds are targeted at the measures of diversification of activities in rural areas, which would create preconditions for the reduction of adverse depopulation trends.

Graph 2: GDP per capita by counties in 2015 and 2016, EU-28 = 100

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<sup>12</sup> Croatian Bureau of Statistics: [https://www.google.hr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=11&ved=2ahUKEwjbl\\_kw8HIAhXR5KQKHb7pBKwQFjAKegQICRAC&url=https%3A%2F%2Fwww.dzs.hr%2FHrv%2Fcensus%2Fcensus2011%2Fresults%2Fxls%2FPreg\\_01\\_HR.xls&usg=AOvVaw20CvfxJSPMNjtY5MNX9nNC](https://www.google.hr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=11&ved=2ahUKEwjbl_kw8HIAhXR5KQKHb7pBKwQFjAKegQICRAC&url=https%3A%2F%2Fwww.dzs.hr%2FHrv%2Fcensus%2Fcensus2011%2Fresults%2Fxls%2FPreg_01_HR.xls&usg=AOvVaw20CvfxJSPMNjtY5MNX9nNC).



Source: Eurostat, processed by the Croatian Chamber of Economy

A reduction in activities and depopulation of rural areas also have an impact on the issues of sustainable development of urban areas. Although urban areas are key drivers of economic activity and, in principle, achieve higher levels of economic and social development, existing national and EU policies are increasingly focused on the integrated and sustainable development of urban areas. Investments in smart cities and the development of smart and energy-efficient social, economic, communal and transport infrastructures form the basis of environmentally and climate neutral urban development. An example of the need for integrated and sustainable development can also be seen in the domestic environment. Although the coastal area of the Republic of Croatia is considered one of the more economically developed areas, problems associated with adverse impacts on the environment, waters, etc. have become increasingly evident in recent years, which indicates the necessity of investing in infrastructure. Considering just the above example, it becomes clear that stronger investment in long-term sustainable and efficient infrastructure has become a key precondition for the development of urban areas of the Republic of Croatia.

As it has been stressed above, apart from the imbalance in the economic development of the regions, the trend of emigration of the active part of the population (both from rural and urban areas) has been

increasing in underdeveloped areas since the accession of the Republic of Croatia to the European Union due to the problems of unemployment and lower income levels. This trend is particularly evident in the sectors that are characterised by labour shortage in the markets of more developed EU Member States (ICT professionals, doctors, engineers and other professionals), and it is particularly acute among young people after graduation. Emigration of population (particularly young people) and negative demographic trends result in a trend of ageing population, which leads to a decrease in the existing and future volume of available labour force. The latest UN study indicates that the Republic of Croatia will face further negative depopulation trends, whose effects will be more strongly reflected in underdeveloped areas. Negative demographic and social developments represent the key challenge for the long-term sustainable growth and development of the Republic of Croatia, which is why it is necessary to introduce measures aimed at reducing negative trends in the future.

In addition to general negative trends in rural and less developed areas, some of them were additionally affected by earthquakes in late 2020 that caused damage to economic, infrastructure and social infrastructure facilities, as a result of which it is necessary to direct additional efforts to rebuild not only infrastructure, but also economic activities in the affected areas.

In order to address the above needs of regionally balanced and economically, environmentally and socially (also demographically) sustainable development of rural and urban areas, as well as the recovery from earthquakes, the cooperation with relevant national institutions and units of regional and local government is of crucial importance.

As described in the SWOT Analysis and in the Analysis of Market Needs and Gaps conducted by PwC, commercial banks are the most important source of finance for projects implemented by regional and local government units. Besides the commercial banks' sources of finance, HBOR's available funds and EU's available funds are important sources of finance, which have contributed to the significant growth of public sector investment in social, communal, economic and transport infrastructure in the last few years.

Since its establishment, HBOR has placed particular emphasis on economically and socially balanced and sustainable regional development. HBOR has set up an organisational unit for cooperation with regional and local government units as well as six regional offices that, in addition to providing support for and encouraging cooperation with entrepreneurs and local representatives of commercial banks, are also responsible for the strengthening of cooperation with the representatives of regional and local government units.

In addition to the available own organisational and financial resources, HBOR has developed cooperation and long-lasting partnership with international financial institutions for regional, rural and urban development. Since the accession of the Republic of Croatia to the European Union, HBOR has been proactively supporting the public and private sectors in the use of available EU funds through the development of new financial products (instruments) from both HBOR's funds and available EU's funds, i.e. through specialised loan programmes and ESIF Financial Instruments. Having in mind the activities performed and the experiences gained so far, the Ministry of Regional Development and EU Funds and the Ministry of Agriculture have appointed HBOR as the fund manager for the implementation of 5 financial instruments developed from EU funds under the current financial perspective.

Existing knowledge and experience, available own funds and efficient use of EU funds as well as other national and international sources of finance can provide strong support for the development and implementation of sustainable and balanced regional, rural and urban development projects in the upcoming five-year period.

Considering all of the aforementioned, **one of the key strategic goals of HBOR for the coming five-year period will be to provide stronger technical and financial support for the promotion of balanced economic and social regional, urban and rural development (including the development of agriculture as a key economic activity in rural areas).**

Proactive approach and stronger cooperation of HBOR with relevant national, EU and international institutions as well as local and regional government units, companies and institutions in their ownership are preconditions for the successful attainment of the above strategic goal.

### 3.1.2.2 Key strategic initiatives

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In line with the above described needs for balanced regional, rural and urban development, the key strategic initiatives necessary to achieve the strategic goal are outlined below.

#### **Strategic initiative 1 – Promotion of HBOR’s role in the area of balanced regional, rural and urban development of the Republic of Croatia**

As already pointed out, regionally balanced rural and urban development has been recognised as one of the strategic national and EU goals. Therefore, one of HBOR's key strategic initiatives in the next five-year period will be to promote the need for balanced regional, rural and urban development of the Republic of Croatia and to position HBOR as a key financial partner of regional and local government units and companies (institutions) in their ownership.

The implementation of this strategic initiative implies, among other things, proactive performance of the following activities:

- *Public promotion of the issue of balanced regional, rural and urban development among key national and international stakeholders and in the public in general – organisation of appropriate seminars, conferences and other forms of raising the level of knowledge and competence of local and regional government units as well as key stakeholders of balanced regional, rural and urban development*
- *Strengthening HBOR's direct co-operation with local and regional government units and companies (institutions) in their ownership*
- *Positioning HBOR as one of the key factors of balanced regional, rural and urban development of the Republic of Croatia*
- *Stronger connection with other key market development stakeholders*
- *Strengthening cooperation with commercial banks and other financial market stakeholders in encouraging private sector investment in underdeveloped areas*
- *Positioning HBOR as an important stakeholder in reducing negative demographic trends and negative social development trends in general.*

The long-term partnership and cooperation between HBOR and relevant national and international institutions as potential transmitters of knowledge, experience and competences of other EU Member States are of particular importance in the implementation of these activities.

In order to implement the above activities, HBOR will endeavour to provide additional funds under other national, EU or private funding sources in addition to the available funds.

**Strategic initiative 2 – Adaptation of existing and development of new financial products (financial instruments) for the financing of projects implemented by local and regional government units, companies (institutions) in their ownership as well as other public entities that focus on the development of infrastructure (economic, social, transport, communal, etc.)**

Besides the promotion of regionally balanced rural and urban development, HBOR will be proactively adapting existing and/or developing new financial products in the next five-year period in order to promote investments by local and regional government units, companies (institutions) in their ownership as well as other public entities that focus on the development of economic, transport, social and communal infrastructure necessary for balanced rural and urban development.

Proactive approach and stronger direct cooperation between HBOR and:

- *Local and regional government units*
- *Relevant ministries in terms of stronger cooperation with local and regional government units and available national and EU sources of funds (positioning of HBOR's planned activities in the framework of expected funds under the upcoming MFF as well as the RRF)*
- *Special international financial institutions*

will provide the adequate terms and conditions of finance for cities and municipalities and strengthen financial support for the development of their infrastructure projects.

In addition to developing financial products, HBOR will, in cooperation with relevant national and international stakeholders, promote the development of the system of **technical support for regional and local government units** as a precondition for the strengthening of institutional capacities and the preparation of local projects of economic, social and communal infrastructure. The key precondition for the implementation of these activities is the timely positioning of HBOR in the use of available national and EU funds and centralised EU programmes (such as the EIB's programmes EIAH, InvestEU and others) and their effective use for the purposes of promoting public and private sector investment.

**Strategic initiative 3 – Adaptation of existing and development of new financial products (financial instruments) for the financing of private sector projects in underdeveloped areas and in agricultural and fisheries sectors**

Besides promoting public sector investment in the development of the necessary economic, social and communal infrastructure, HBOR will, in the next five years, for the purpose of faster economic development of underdeveloped areas and rural areas through the improvement of existing or developing new products, provide adequate sources of investment finance for:

- *Private sector in underdeveloped areas (development categories I – IV<sup>13</sup>), hill or mountain areas and the islands*
- *Agricultural and fisheries activities with a special focus on supporting sustainable and environmentally friendly production.*

Particular attention will be given to the development of micro, small, medium-sized and medium-capitalised enterprises through the development of new financial products, in particular from available EU funds, but also from available resources for the promotion of entrepreneurship provided by regional and local government units as well as other national sources (national and local interest rate subsidies).

By taking a proactive approach and by strengthening cooperation with relevant ministries, units of regional and local government as well as other relevant national and local institutions (HAMAG-BICRO, regional development agencies, etc.), HBOR will develop products tailored for development needs of the private sector in underdeveloped areas and in agricultural and fisheries sectors.

Of crucial importance for the successful implementation of the envisaged activities is to **strengthen the cooperation with commercial banks and leasing companies** in order to make the available funds accessible to a larger number of possible beneficiaries.

**Strategic initiative 4 – Adaptation of existing and development of new financial products (financial instruments) aimed at financing infrastructure, economic and social recovery and development of earthquake-affected areas.**

Taking into account the damage caused by earthquakes in the central part of Croatia at the end of 2020, special emphasis will be placed on support for the recovery and development of earthquake-affected areas through the financing of:

- *Reconstruction and development of communal, social, health and educational infrastructure,*
- *Recovery and development of economic activities,*
- *Recovery and development of activities in agriculture and*
- *Other activities in cooperation with the Government of the Republic of Croatia.*

**Strategic initiative 5 – Development of new financial products (financial instruments) for the financing of projects for the purpose of reducing adverse demographic and social developments**

As explained in the introductory part of the description of this strategic goal, one of the key long-term issues in the Republic of Croatia is the issue of negative demographic trends. Although HBOR has been, since its establishment, focused primarily on the development of economic activities and social infrastructure and, consequently, has not directed its funds to the citizens, the pronounced demographic issues indicate that it may be needed to change the existing and develop the new activities.

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<sup>13</sup> Decision on the classification of local and regional government units according to degree of development, Official Gazette of the Republic of Croatia, No. 132/2017.



Considering the experience in the implementation of similar activities, HBOR will, in the course of the upcoming five-year period, analyse the needs as well as regulatory possibilities of implementing financial products aimed at supporting natural persons in the following areas:

- *Education (particularly high-school education)*
- *Housing (particularly for multi-member young families)*
- *Other demographic development factors.*

This analysis assumes active cooperation and exchange of information on current and future needs and possibilities of cooperation with competent public institutions (relevant ministries, other public institutions, universities, etc.) and commercial banks currently operating in the said area.

Considering the existing organisational structure and available resources, the development of products in these areas is possible only in cooperation with commercial banks and other financial market entities that have an appropriate distribution network and access to the said market.

### **Strategic initiative 6 – Development of HBOR’s internal capacities and competences in the area of balanced regional, rural and urban development**

The basic precondition for stronger support to the public sector is the existence of adequate internal capacities and competences of HBOR. Even though there is a specialised organisational unit in place for cooperation with the units of regional and local government, it is necessary to further improve and develop HBOR's internal capacities.

In line with the above, in the upcoming five-year period, HBOR plans to put significant efforts in:

- *Capacity building in the area of providing support to regional and local government units*
- *Education and training of HBOR’s employees and strengthening of HBOR's competences in the field of planning, structuring and implementing public sector projects*
- *Exchange of experiences with other international and national market development entities*
- *Development of internal competence centres for specific areas (agriculture, integrated urban development, etc.)*
- *Development of internal capacities for the creation of technical support models for the public sector.*

#### 3.1.2.3 Prioritisation and timing

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Figure 4: Five-year action plan – Promotion of economically and socially balanced and sustainable regional, rural and urban development of the Republic of Croatia

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Promoting HBOR's role</b>	<b>Build strong cooperation with LRGUs</b>				
	Building	Maintaining			
	<b>Strengthen cooperation with key stakeholder relevant for balanced regional, rural and urban development</b>				
	Building	Maintaining			
<b>Adapt current and develop new financial products for LRGUs and public enterprises</b>	Organise trainings, round tables / conferences etc.				
	Selection of consultants, training HBOR		Provide technical assistance		
			Performance analysis		
			Adapt current and develop new products		
<b>Adapt current and develop new financial products for private sector in less developed areas</b>	Collect feedback from LRGUs on their needs		Adapt current products/develop new ones	Product performance analysis	
	Negotiations with relevant ministries, LRGUs and IFIs regarding more favourable		Develop new products	Adapt current and develop new products	
			Product performance analysis and market gap analysis		
	Strengthen cooperation with CBs and Leasing companies	Better loan distribution to target groups			
<b>Adapt current and develop new financial products for earthquake affected areas</b>	Negotiations with relevant ministries, LRGUs and IFIs regarding more favourable funding		Develop new products	Product performance analysis and market gap analysis	
<b>Develop new financial products for reducing negative demographic trends and social development</b>	Develop new products				
	Negotiations with relevant ministries, LRGUs and IFIs regarding more		Develop new products	Product performance analysis and market gap analysis	
	Strengthen cooperation with CBs and Leasing companies		Better loan distribution to target groups		
<b>Build internal capacities</b>	Complete specialised trainings				
	Study trips				

Pre-requisite phase
  Initiative phase
  Business as usual

**Target market:**

- Micro, small, medium-sized and medium-capitalised enterprises in underdeveloped areas of development categories I – IV, hill or mountain areas and the islands
- Regional and local government units and companies (institutions) in their ownership, other public companies and institutions whose projects and activities are targeted at the development of significant infrastructure
- Economic entities, in particular micro, small and medium-sized enterprises in agricultural and fisheries sectors
- Natural persons in the area of the initiative aiming to encourage activities targeted at the reduction of negative demographic trends (students, young families, etc.).

**Key sources of finance for the activities necessary for the realisation of the strategic goal:**

- Available HBOR's funds
- EU funds (centralised and decentralised)
- Other available national funds
- Funds of regional and local government units.

### 3.1.3 Promote Croatian economy internationalisation and globalisation

#### 3.1.3.1 Rationale

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As pointed out in the introductory part of the document, the market of the Republic of Croatia, as relatively small and completely open, has been characterised for many years by a strong imbalance and negative balance of commodity imports and exports (coverage of imports by exports in 2018 was about 60 %). In addition to the smaller focus of domestic entities on international markets, domestic export is often characterised by export of goods with lower added value (raw materials, semi-finished products), which further aggravates the problem. Also, most export activities are focused on a narrow range of regional markets or markets where domestic producers have been present for a number of years.

In Croatia, export companies are of great importance. The fact is that only 15 % of companies in Croatia participate in export activities, but at the same time, they account for 51 % of employment, 62 % of investments and generate 66 % of total sales revenue.

Since the start of EU membership, Croatia has made improvements in terms of exports, with the exports of goods and services reaching over 50 % of GDP in 2017, indicating that the process of more serious integration into EU and global supply chains has begun in earnest. However, according to the Analysis of Market Needs and Gaps, Croatia still has strong imbalances in commodity imports and exports and lags significantly behind other EU countries. Having the majority of Croatian export of goods being semi-finished products, whose share increases over time, implies to the risk of low long-term growth rates. This problem is confirmed by the data of the Croatian Bureau of Statistics, according to which the Republic of Croatia records a deficit in almost all product categories (machinery and vehicles, chemical products, food, etc.), while the surplus is realised exclusively in the category of exports of raw materials other than fuel.<sup>14</sup>

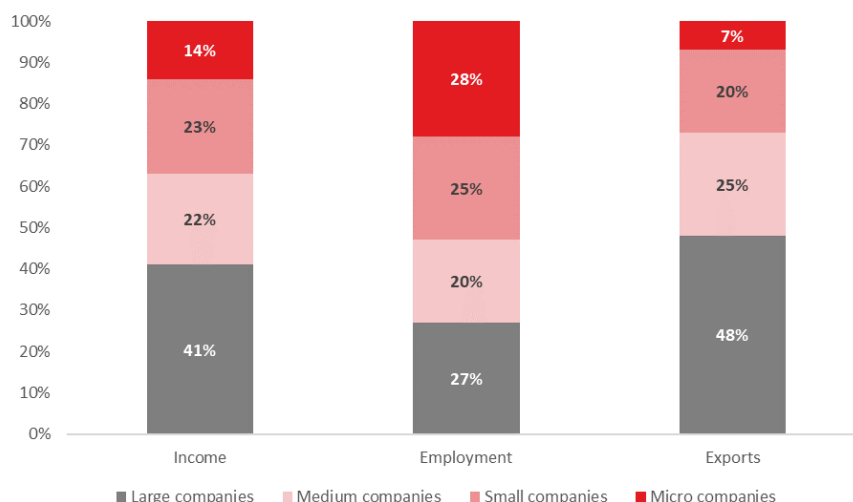
To continue the reduction of the Croatia's imbalance between imports and exports (also in comparison to EU members), the emphasis should be on exporting products and services that bring added value to the Croatian economy, but also to the decrease in imports in industries where the local economy has competitive advantages (available natural resources, geographical position etc.).

According to the figure below, most of the income comes from large enterprises, and then medium and small enterprises. Micro enterprises fall very low in exports but have a large percentage of total employment.

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<sup>14</sup> Source: [www.dzs.hr](http://www.dzs.hr) – Statistical information 2019

Graph 3: Total income, employment and exports by enterprise size in 2017



Source: CEPOR – SMEs and Entrepreneurship Policy Centre, 2018

Croatia is predominantly oriented towards exports to EU members. In 2018, 68 % of total exports were made to the EU market, and an additional 17 % to CEFTA countries (the largest share – Bosnia and Herzegovina). The focus of Croatian exporters on the EU and regional markets is the result of physical proximity of the respective markets, lower transport costs, better recognition, common standards and regulations, minor language barriers, similarities in tradition and the benefits of EU membership. On the other hand, it poses a concentration risk because the share of the EU economy in world GDP gradually slows down under the influence of significantly faster expansion in developing countries (emerging markets and developing economies - EMDE regions). Clearly, the focus of global economic growth is shifting to Asia. In order to preserve the existing and improve the future export position, Croatia needs to attempt to increase its exports towards extra-EU economies with higher GDP growth rates.

An additional negative effect on export activity was caused by the COVID-19 pandemic that led to a temporary lockdown and slowed down international trade in both the global and regional markets. However, the health and economic crisis caused by the pandemic, in addition to short-term negative consequences, will also have an impact on long-term changes in global and regional value chains, whose changes may be an opportunity for a stronger step of domestic economic entities towards new market niches.

Considering all of the above, in order to ensure a stronger step forward towards international markets, domestic entities need the development of institutional support. HBOR is the only development and export bank and export credit agency on the Croatian market, giving it unique position to support investments in the Croatian economy and its internationalisation. As an export bank, HBOR already provides certain specific export-oriented activities such as approving loans to foreign buyers (directly or in cooperation with foreign buyer’s bank), supplier credit, pre-export finance as well as the export-oriented bank guarantees (performance guarantees, advance payment guarantees, etc.) and opening of letters of credit.

HBOR is a Croatian export credit agency since 1998 when it started its export credit insurance operations for and on behalf of the Republic of Croatia. Export credit insurance activities against non-marketable risks include several insurance products for small, mid-caps and large exporters, banks and private insurance companies. Within the framework of its export credit insurance activities, HBOR insures receivables of exporters for delivered goods and services to foreign buyers, pre-export working capital loans, buyer credits, as well as bank guarantees issued for export transactions.

Further to many years of its international activity, HBOR has established a close cooperation with other global and regional special financial institutions, development banks, ECAs and various associations, and is also a member of several regional and international associations (it participates in the activities of the Export Credits Group of the Council of the EU regularly and is an active member of the Berne Union, the leading global association for export credit insurance). HBOR is also an active member of the Croatian Association of Exporters (Hrvatski izvoznici), which has been working actively since its establishment on promoting export-oriented economy.

Taking into account the previously mentioned needs of the Croatian economy, as well as HBOR's current experience and knowledge in the export promotion activities, guarantee activities, cooperation with key domestic and international stakeholders, **HBOR will direct additional activities towards stronger internationalisation of the domestic economy in the next five-year period.** By adapting its current and developing new products intended to finance trade, HBOR will provide stronger support to both existing and new exporters in reaching the existing and new foreign markets. Special attention will be given to promoting exports of micro, small, medium and mid-cap companies, the export of domestic goods with higher added value and the export of domestic goods and services to new markets where Croatian products and services are less present or are not present at all.

For the successful implementation of the activities described above and the achievement of the Strategic goal, it is crucial to foster cooperation with the relevant domestic public and private institutions (ministries, banks, chambers, associations of entrepreneurs and exporters etc.), as well as transfer of know-how and experience of other national and multilateral development and export banks and export credit agencies. In addition to adapting the current or developing new products and services, in order to achieve a greater volume of activities and stronger support for domestic exporters, it is important to provide additional public and/or private sector funding in addition to available HBOR's resources over the next five-year period.

### 3.1.3.2 Key strategic Initiatives

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Regarding the necessity to promote the internationalisation and globalisation of the Croatian economy, the key Strategic initiatives necessary for the realisation of the Strategic goal are outlined below.

#### **Strategic initiative 1 – Promoting the need for internationalisation and globalisation of the Croatian economy**

As an export bank, HBOR has been carrying out activities to promote stronger internationalisation and globalisation of the domestic economy for many years. Once a year, HBOR organises an international conference on export promotion and is an active participant in other national and international events aimed at internationalising the Croatian economy.

In the next five-year period, HBOR will continue with its existing activities and at the same time strengthen its activities of direct communication with exporters and other key stakeholders in order to better determine the adaptation of current or development of new products and services of HBOR.

HBOR will pay particular attention to:

- *Organisation of community events (seminars, educations) for awareness generation, dissemination of best practices and networking with the focus on internationalisation of companies*
- *Exchange of experience and information with relevant associations, such as Croatian Association of Exporters (Hrvatski izvoznici) and the Croatian Chamber of Economy, with the purpose of identifying projects and/or activities that can be supported and financed by HBOR and with the purpose of fostering international business activities of Croatian exporters*
- *Systemised collection of feedback from companies involved in export activities (or planning to start international business activities) about specific issues or potential actions that would facilitate project development and investments (independently or in cooperation with associations of exporters).*

HBOR shall endeavour to become first point of contact for export activities and export credit insurance activities by proactively cooperating with ministries, Croatian companies and commercial banks.

### **Strategic initiative 2 – Enhancement of existing and development of new products focused on promoting exporters and internationalisation of the Croatian economy**

Although HBOR already implements a large number of financial products and services to promote exports, in cooperation with other key public and private stakeholders, significant improvement to the existing products can be made and the new ones can be developed that would enable adequate and accessible support to exports, all in accordance with applicable national and international legal frameworks.

In addition to encouraging existing exporters, special emphasis will be put on encouraging new micro, small, medium and mid-cap companies to enter foreign markets, as well as encouraging exports to markets where local products and services are not traditionally present.

In the next five-year period, HBOR will pay special attention to the enhancement of existing specific and export promotion products customary in international trade. The development and intensive use of available national funds is crucial for the realisation of this initiative, while respecting the fact that EU funds and special international financial institutions have very limited opportunities to use them in export promotion measures.

Among other export promotion activities, two essential activities will be:

- *Development of a credit mechanism for export transactions with CIRR-based interest rates; necessary cooperation and development of regulatory and financial frameworks with relevant ministries*
- *Modification of the existing regulatory framework for export credit insurance business and the development of insurance policies that will have the characteristics of financial/bank guarantees at first call.*

HBOR will also consider the development of new products aimed at stronger internationalisation of the Croatian economy, such as financing of exporters through purchase of their receivables from foreign buyers without recourse (*factoring* and *forfeiting*), using HBOR's insurance policies for export receivables as collateral, the development of products for subsidising interest rates, the development of development aid loan schemes for eligible countries, export credit insurance products, strengthening the support of exporters' investment activities in international markets as well as the development of new products and services of HBOR.

To achieve this Strategic goal, strengthening of cooperation with relevant national institutions, securing of other national sources of co-finance (relevant ministries), as well as the cooperation with exporters will play a key role in identifying their needs.

### **Strategic initiative 3 – Enhancement and strengthening of HBOR's current internal capacities and competences**

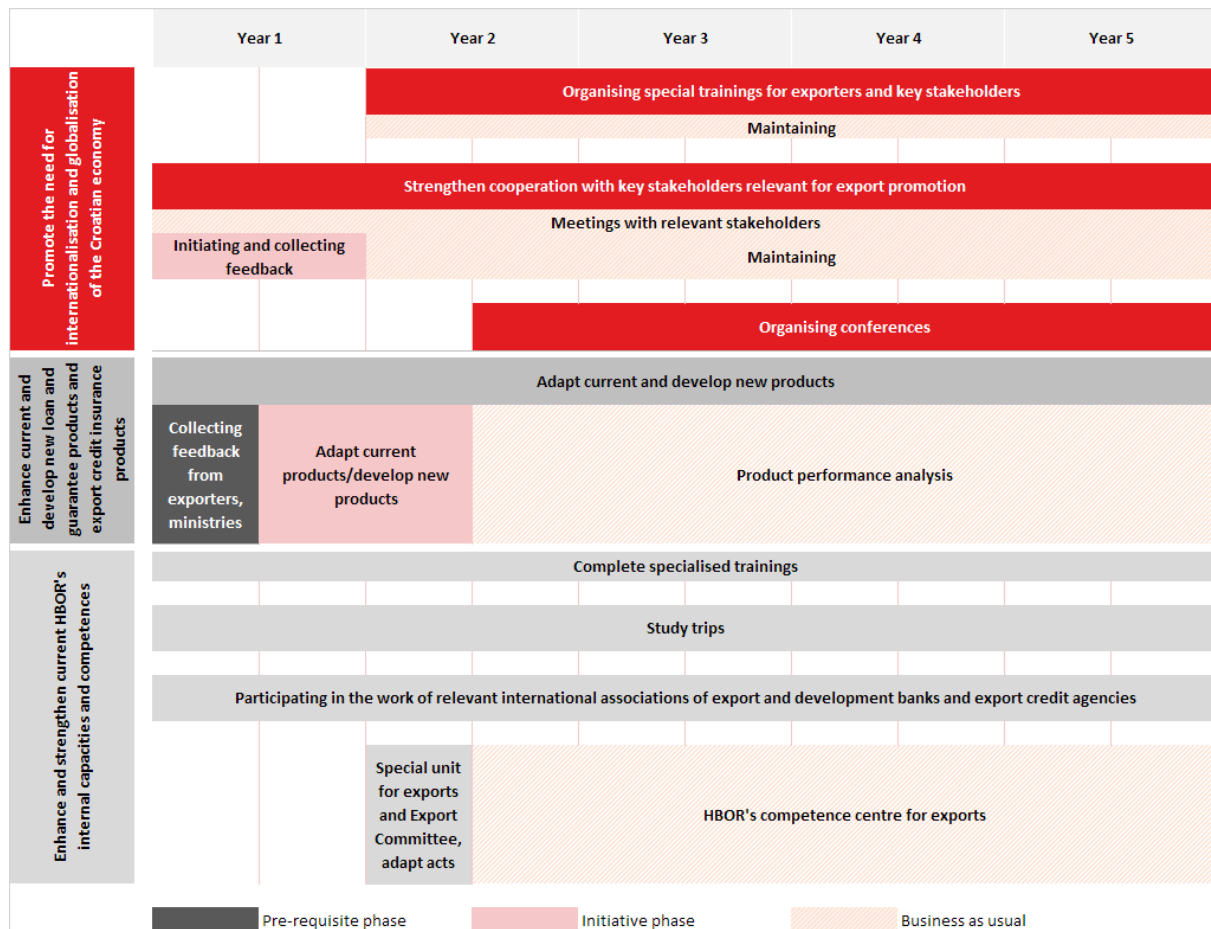
For the implementation of the initiatives described above, it is necessary to strengthen HBOR's internal competences and capacities through:

- *Establishment of a special export committee (task force) that would include appropriate organisational units for export promotion*
- *Modification of documents governing export credit insurance business*
- *Organisation of specialised trainings*
- *Regular exchange of experience with other export banks and export credit agencies (job shadowing)*
- *Active participation in working with appropriate international associations of export banks and export credit agencies.*



### 3.1.3.3 Prioritisation and timing

Figure 5: 5-year Action plan – Promote Croatian economy internationalisation and globalisation



### 3.1.3.4 Target market and planned sources of finance

#### Target market:

- Existing export-oriented business entities, especially in terms of opening up new markets and enhancing investments in foreign markets
- micro, small, medium and mid-cap companies focused on entering international markets.

#### Key sources of funding for the activities necessary to achieve the Strategic goal:

- available HBOR funds
- other nationally available funds
- regular payments of the Ministry of Finance for export credit insurance business.

### 3.1.4 Promote economic recovery from COVID-19 crisis and competitiveness by emphasising RDI, digital transformation and Industry 4.0

#### 3.1.4.1 Rationale

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Although in the conditions of the global financial crisis the domestic economy had recorded a sharp decline in investment activities, in recent years, until the outbreak of the COVID-19 pandemic, their partial recovery was recorded. The pandemic led to a strong disruption of economic activity in almost all industries and caused a crisis that was reflected in a decline in real GDP of 15.4% in the second quarter of 2020 and 10% in the third quarter of 2020. Although the decrease in activity was recorded in a large number of sectors of the Croatian economy, the negative contribution to economic activity was especially evident in the services sector, whose activity decreased by more than 30%, and which had achieved stable growth of activities and investments in the last ten years. The services sector is most sensitive to the measures of social distancing and is most strongly affected by the decline in activity. This is equally true for domestic demand for services and for exports of services, which fell by almost 70%. In addition to the short-term direct consequences of the pandemic, i.e. measures taken to combat it, we can expect additional negative effects in the coming period, even in sectors that did not suffer direct damage from the pandemic due to the aforementioned decline in economic activity, as well as in the overall demand in both the national, EU and global markets. Although providing liquidity in the economic system has become a key short-term measure to which most resources need to be directed, it is necessary to provide support for investment projects in order to ensure economic recovery, job preservation and long-term strengthening of competitiveness.

Enterprises, and especially SMEs, are the heart of the Croatian economy since they represent 99.7 % of the companies in Croatia and employ nearly three-quarters (73.2 %) of all employees in business entities. In the breakdown of the economy by activities, tourism accounts for the largest share of GDP (19.3 %), while other industries include food processing (11.1 %), metal industry (10.76 %), ICT (8.72 %) and other branches of industry.<sup>15</sup> Many small and medium-sized, but also large, entrepreneurs, especially entrepreneurs in tourism and services industries, have been severely affected by the decline in activities and the measures to combat the spread of COVID-19 disease.

Besides the impact of the pandemic, according to the SWOT analysis and the Analysis of Market Needs and Gaps prepared by PwC, the Croatian companies in the manufacturing industry are mainly oriented towards low technology activities, this coupled with a lack of diversification of the manufacturing sector is one of the structural weaknesses of the Croatian economy. The data on the distribution of employed show that prevailing share of employed (78%) work in low-tech manufacturing and less knowledge-intensive services, while employed in high-tech manufacturing and knowledge-intensive services make 22% in total share. This imposes threat to competitiveness of Croatian enterprises, as the manufacturing sector, following the tourism sector, makes the highest share in the Croatian GDP. The Croatian industry mainly focuses on low value-added products characterised by low productivity levels, low industrial maturity, industrial production mainly oriented towards low technology activities, outdated machinery and equipment. Considering the average industrial maturity level in Croatia in

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<sup>15</sup> Eurostat.

2015 was an estimated 2.15 out of 4,<sup>16</sup> which is the level of the 2<sup>nd</sup> industrial generation in the middle of 20th century. Similar issues are also affecting some more traditional industries like agriculture, fisheries and forestry.

Although the Analysis of the Market Needs and Gaps recognised tourism, until the outbreak of the COVID-19 pandemic, as the most developed and important industry in the domestic economy, tourism sector presented several structural weaknesses in addition to the strong decline in activity in 2020. Lower share of hotel accommodation (especially in upper scale hotels and other hotel similar accommodation capacities) as well as the development of other touristic facilities and infrastructure needed to achieve sustainable tourism activity are key issues that should be met in the upcoming period. As mentioned previously under Strategic goal, the development of sustainable municipal, transport and economic infrastructure is a prerequisite for ecologically and economically sustainable economic development. Ecologically sustainable development is especially important for domestic tourism activities, which have so far been based on available natural resources.

One of the key structural market failures identified across all sectors is shortage of quality labour force, caused by mismatch of skills between supply and demand on the job market as well as the emigration of a part of the working population since the Croatia's joining to the European Union. The shortage of labour force could impede future growth and development of domestic economy, especially in labour intense industries like tourism, labour intense industries (such as textile industry), construction industry, but also ICT industry and other service industries of the domestic economy. The reduction of available workforce requires from the business entities in the Republic of Croatia **to invest more heavily in digitalisation and automatization of business processes** in order to increase or at least maintain their existing level of competitiveness by increasing productivity and technological development. Also, domestic entrepreneurs have stated that there is a lack of adequate workforce, desiring employees better trained in the STEM discipline (science, technology, engineering and mathematics).

The need for strong investment in green and digital technologies has also been recognized by the EU, as a result of which investment in green in digital transition of the EU economy has been recognized as a key measure under the Recovery and Resilience Facility of the EU in recovering from the impact of the COVID-19 pandemic.

As described previously under the Strategic goal of promoting the development of venture, equity and quasi-equity capital market, in the last ten years, the Republic of Croatia has registered a growing number of start-ups, especially in the export-oriented ICT sector. Although access to domestic and international venture capital is key to the development of new high-tech sectors and companies, the less accessible traditional sources of finance limit the opportunities for faster growth of these industries.

The domination of traditional sources of funding, among others, has the effect of less investments in research, development and innovations (RDI projects). The lack of know-how and financial resources to structure and implement financially viable RDI projects impedes the development of RDI ecosystem in Croatia. This significantly resulted in the existence of the “missing middle” problem in Croatia – medium-sized firms have a low share of RDI investments, which represents a disproportion given the

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<sup>16</sup> Project HRZZ-1353 Innovative Smart Enterprise (INSENT), Analysis of the current state of the Croatian industrial enterprises (2015), available at: [https://bib.irb.hr/datoteka/769366.INSENT\\_Report\\_WP1.pdf](https://bib.irb.hr/datoteka/769366.INSENT_Report_WP1.pdf).

structure of the business sector. At EU level, research and development expenses are 2.07 % of GDP, with two-thirds of it being in the business, corporate sector, while in Croatia the share of research and development investment is 0.86 % of GDP. In addition, the business sector in the Republic of Croatia „accounts for“ only 50 % of research and development spending to provide incentives for the European Union competitiveness, whereas the increase in research and development to 3 % of GDP is included in five objectives of the strategy Europe 2020.<sup>17</sup>

As previously mentioned, small and medium companies account for 99.7 % of total number of companies, while their share in investments in RDI is 38 % (62 % large enterprises). Since innovation and SMEs are the driver and the main lever for increasing the competitiveness of the domestic economy, there is a need to put greater efforts into promotion and support of innovation financing (adequate and up-to-date research equipment and research centres) and to develop an innovation eco-system in the country.

In view of the above, some of the key market failures and suboptimal investment situations were recognised in the implemented Analysis of the Market Needs and Gaps for SMEs and Mid-caps, among which the following:

- *The domination of traditional financial products as main sources of funds for the growth and development of entrepreneurial activities*
- *Insufficient access to financing due to historically higher interest rates and more rigorous collateral requirements, especially for micro and small enterprises as well as enterprises on less developed areas*
- *Overall high levels of corporate debt due to less developed financial market and poor diversification of available sources of financing*
- *Lack of source of finance for innovative projects based on R&D activities.*

Recognising the market gaps, HBOR already offers a variety of products to domestic enterprises such as loans, letters of credit, guarantees, export credit insurance, leasing products and investment into equity. HBOR issues its products directly to the client (such as start-ups, young and female entrepreneurs, project finance etc.), but also through other financial intermediaries. In accordance with good practice in development banking and for the purpose of availability of adequate sources of finance to a large number of users, the development of domestic financial market, but also to avoid adverse effects on competition, HBOR bases a large part of its business on individual loans or framework credit lines to commercial banks and leasing companies. HBOR also supports enterprises and the Croatian financial sector through risk sharing models with commercial banks in the projects with higher level of investments or higher level of risk. Additional liquidity support measures for the economy have been developed in response to the negative impacts of the COVID-19 pandemic. Successful cooperation and partnership relationship of HBOR with other international financial institutions (EIB, CEB, IBRD, etc.) as well as the cooperation with other national promotional banks have an important role in these activities.

In addition to the activities based on its own funds or other nationally available funds, HBOR has valuable know-how and experience in utilising of EU funds and the development of financial instruments. In the last few years, within the framework of the national strategic goal of increasing

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<sup>17</sup> Eurostat

SME competitiveness and growth, HBOR has implemented several financial instruments based on available proceeds of the EU funds. Along with other public institutions (primarily HAMAG-BICRO), HBOR plays strategic role in utilisation of available EU funds. As already mentioned above, according to available information, it is expected that under the upcoming MFF 2021 – 2027 and the RRF it will be possible to develop further centralised and decentralised financial instruments. One of the key players in developing such instruments will be national development banks. This activity could result in even stronger cooperation between national development banks and local commercial banks, especially in providing finance to micro, small and medium enterprises.

In order to address the previously described problems and opportunities and to provide support to domestic companies during their life cycle, **HBOR will in the next five-year period focus its activities on the Strategic goal of promoting competitiveness of the Croatian economy by:**

- *Strengthening the liquidity of the domestic economy and implementing the measures for the recovery from the impact of the COVID-19 pandemic*
- *Promoting the projects of micro, small, medium and mid-cap companies*
- *Promoting digitalisation and automatization projects as well as the development of Industry 4.0*
- *Promoting the projects of innovations, research and development*
- *Promoting projects to change the structure of individual activities (e.g. stimulating investments in continental tourism, increasing hotel accommodation facilities etc.), enhancing products and services with a higher added value and reducing imbalances in commodity and services imports and exports*
- *Promoting the development of financial market (innovative financial instruments) as a prerequisite of long-term sustainable development of the economy.*

Taking into account the current circumstances and the expected high liquidity in the domestic and international financial market, apart from the available HBOR funds (including the funds of international financial institutions – EIB, CEB, IBRD, etc.), the main financial precondition for achieving the previously described Strategic goal is to ensure that the competent ministries make available additional funds from the EU funds within the framework of MFF 2021 – 2027. Available own resources as well as efficient use and integration of the EU funds with other public and private sector proceeds (commercial banks, leasing companies, etc.) can contribute to a significant growth of investment in the domestic economy and essential elements of this Strategic goal (encouraging innovations, digital transformation etc.). In addition to the financial condition described above, in order to ensure adequate distribution of funds to domestic business entities (particularly micro, small and medium enterprises) **the development of good partnerships with commercial banks, leasing companies and potential other financial market entities of the Republic of Croatia will have a key role.** In this regard, it is particularly important to emphasise the development of new products in cooperation with other domestic financial institutions, agencies and professional associations (banks, leasing companies, HAMAG-BICRO, Croatian Chamber of the Economy, Croatian Chamber of Crafts, Croatian Employers' Association, etc.).

### 3.1.4.2 Key strategic initiatives

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Based on the specific conditions of the Croatian economy and its business environment, as well as the unfulfilled needs that remain present, some key strategic initiatives are outlined below.

#### **Strategic initiative 1 – Promoting greater investment in RDI and digital transformation of the domestic economy (Industry 4.0)**

As pointed out in the rationale, apart from monitoring and adapting to the accelerated global development of new technologies, with the decline in the available workforce and the focus on the products with the lower added value, one of the key factors in raising the competitiveness of the domestic economy is investing more in digital transformation of the economy and investing in RDI projects.

Recognising this need, HBOR will over the next five years focus more heavily on investing more heavily in the digital transformation of the domestic economy and investing in research, development and innovation.

HBOR plans to implement this strategic initiative by:

- *Strengthening promotional activities for the needs of the digital transformation of the economy and investment in RDI – organising community events for raising awareness, knowledge, dissemination of best practices and networking; events could be organised with focus on investment opportunities in RDI, digital transformation and Industry 4.0*
- *Strengthening cooperation with relevant ministries and other key stakeholders necessary for digital transformation of the economy and encouraging investments in RDI such as relevant national institutions (HAMAG-BICRO, Croatian Chamber of the Economy, Croatian Chamber of Crafts, Croatian Employers' Association, etc.), commercial banks, leasing companies, employers' associations, international financial institutions*
- *Encouraging cooperation with scientific community in order to strengthen the bond between the science and the economy in R&D and innovation projects.*

#### **Strategic initiative 2 – Enhancement of existing and development of new credit and guarantee products for the purpose of recovering from the impact of the COVID-19 pandemic and strengthening competitiveness and digital transformation of the domestic economy, particularly small, medium and mid-cap companies**

Since its establishment, HBOR has been actively promoting and enhancing the competitiveness of the domestic economy. In the period up to the accession of the Republic of Croatia to the European Union, most of the funds were provided through HBOR's own funds, as well as other available national funds. With the accession of the Republic of Croatia to the European Union, relatively abundant funds of the EU funds were made available to the domestic economy along with available national funds.

In addition to considerable EU funds expected in the forthcoming MFF 2021 – 2027 and under RRF, strengthening the role of the EU financial instruments as well as available national funds, HBOR will in cooperation with other key public and private stakeholders, through a more efficient use of all available funds, make efforts to provide an adequate and more accessible support necessary for

recovering from the impact of the COVID-19 pandemic and enhancing competitiveness, digital transformation of the domestic economy and adjustment to new global circumstances.

In addition to activities for the promotion of competitiveness and digital transformation of the economy, special attention will be paid to the development of new loan and guarantee products:

- *Developing loan and guaranteed products aimed at economic recovery from the crisis caused by the COVID-19 pandemic*
- *Increasing the quality and availability of, and generally encouraging projects of micro, small, medium and mid-cap companies*
- *Promoting the projects of digitalisation and automatization and the development of Industry 4.0*
- *Promoting projects to change the structure of the economy, enhancing products and services with a higher added value and reducing imbalances in commodity and services imports and exports*
- *Promoting the development of the financial market (innovative financial instruments) as a precondition for the long-term sustainable development of the economy.*

The following will be crucial for the implementation of this strategic initiative:

- *Strengthening the cooperation with the relevant national institutions in terms of providing sufficient proceeds of the EU funds and national sources of finance in areas not supported by available EU funds*
- *Strengthening cooperation with commercial banks, leasing companies and other partners.*

### **Strategic initiative 3 – Development of new products for investment in research, development and innovation**

It was pointed out in the introductory part that one of the key elements of strengthening long-term competitiveness of the domestic economy is the increase of investments in research, development and innovations. Investments in research, development and innovation are areas of risk investment, for which traditional forms of financing that dominate the domestic financial market are not a suitable source.

In addition to expected considerable EU funds and the announced future policy of promoting EU investments in research, development and innovations, HBOR will in the next five-year period focus on developing innovative financial instruments from the available EU funds (centralised and decentralised) and other national sources. The development of new innovative products and services, but also investments in private equity, is one of the key prerequisites for strengthening investments in private sector in research, development and innovations (particularly micro, small, medium and mid-cap companies).

Although the development of financial markets is necessary for the sustainable development of the innovation environment, with regard to relatively higher risks of investment in RDI and the weaker willingness of the traditional financial market participants for investment in it, the need for stronger direct financing of HBOR is expected in the next five-year period.

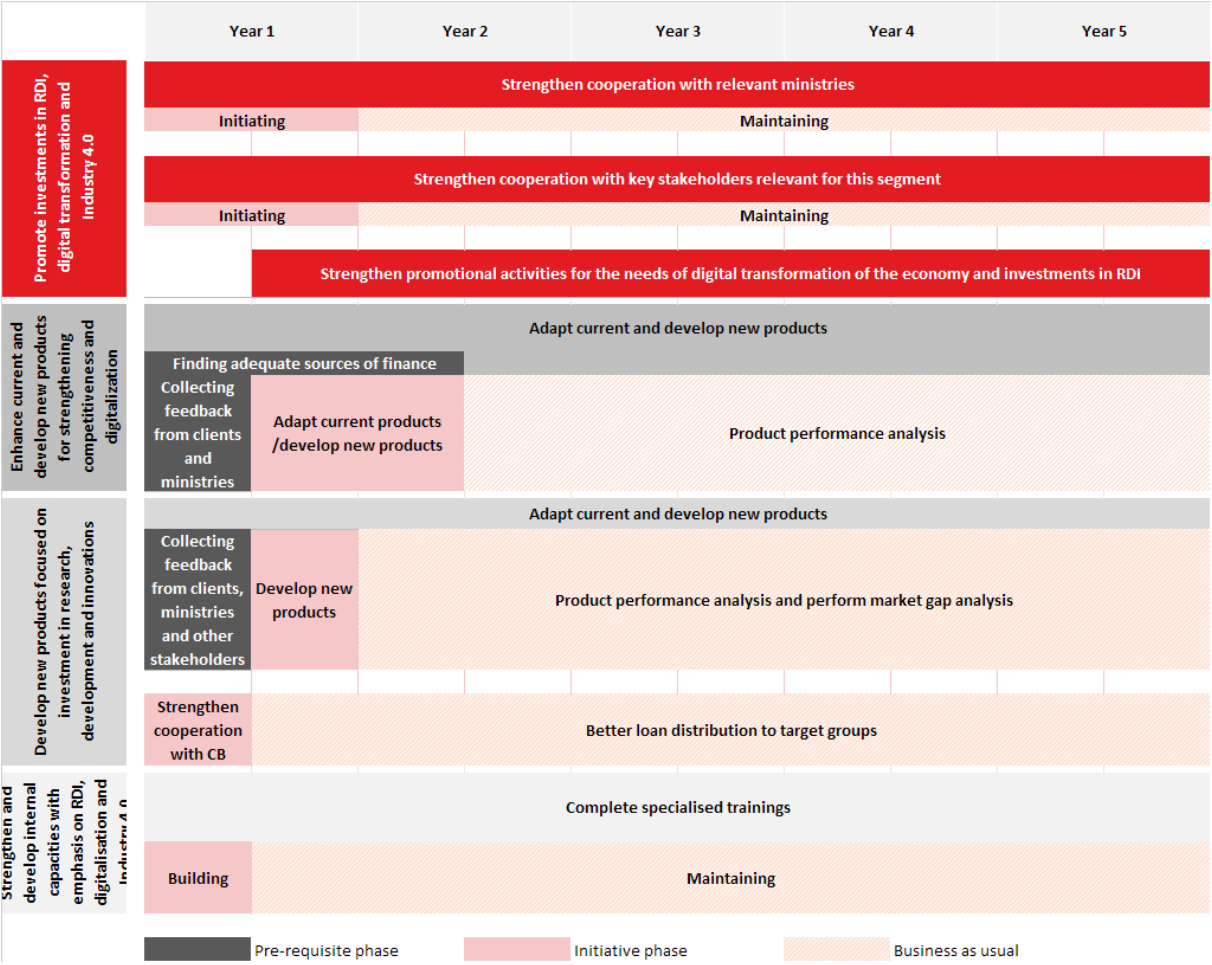
### **Strategic initiative 4 – Enhancement and strengthening of HBOR's internal capacities and competences**

In order for HBOR to successfully respond to the challenges faced by SMEs and mid-cap companies in the field of enhancing competitiveness and focusing on innovation and digitalisation, it is necessary to strengthen HBOR’s internal competencies and capacities, particularly in the field of:

- Digital transformation of the economy, RDI and Industry 4.0.
- Continuous improvement of processes and increase in operational efficiency
- Development of new products and services.

3.1.4.3 Prioritising and timing

Figure 6: Five-year action plan – Promote economic recovery from the crisis caused by the COVID-19 pandemic and competitiveness by emphasising RDI, digital transformation and competitiveness by emphasising innovation, digital transformation and Industry 4.0





#### 3.1.4.4 Target market and planned sources of finance

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**Target market:**

- Micro, small, medium and mid-cap companies
- Large companies for investments in digitalisation and automatization, investments in products and services with higher added value, investments in projects aimed at reducing certain structural weaknesses in the economy (e.g. construction of new hotel capacities in tourism etc.).

**Key sources of finance for the activities necessary for the realisation of the Strategic goal:**

- Available HBOR funds
- EU funds
- Other nationally available funds.

### 3.1.5 Promote climate and energy neutral economy through energy efficiency, renewables and environmental protection

#### 3.1.5.1 Rationale

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Energy efficiency and renewable energy are strategic elements of the national, EU and global energy policy<sup>18</sup>. Climate change and increasing demand for energy are focusing the EU initiatives on the development of renewable energy resources and more efficient use of available energy, i.e. energy efficiency. The UN's 2030 Agenda for Sustainable Development and the latest climate targets set by the Paris Agreement encourage private and public entities to raise awareness of public and private entities about investments in projects promoting climate and energy neutral economy through energy efficiency, renewables and environmental protection. The energy efficiency and renewable energy sector has a growing impact on EU policies and particularly on the economies of EU member states. These policies are also reflected in the Croatian Industry Strategy 2014 – 2020 where, among other things, renewable and clean energy and more effective use of energy are recognised as trends that will affect the Croatian economy even more in the future.

Although the Republic of Croatia has achieved almost all of its 2020 goals in renewable energy due to the large share of electricity production from large power hydro plants and recent measures to stimulate investment in other forms of renewable energy sources, announcements of future EU targets pose additional challenges and investment needs for the Republic of Croatia. Further to the mentioned, and taking into account the available natural resources, in Croatia, there is still high potential for the use of renewable energy sources (wind energy, solar energy, hydro energy, biomass, biogas, but also other renewable energy sources).

Although the current model of renewable energy promotion has proven relatively successful in boosting investor interest for investing in renewable energy resources, changes in the global market and noticeable reduction in investment costs per unit of energy production from renewable energy sources (kWh) have resulted in the need to change the regulatory framework. The expected changes in the regulatory framework for the promotion of renewable energy projects and the more efficient use of available incentives indicate to the need for a greater volume of long-term sources of finance, the availability of which in the domestic financial market has been limited so far.

As opposed to the field of renewable energy sources, in terms of the energy efficiency, the Republic of Croatia is faced with great challenges. Given the weaker capacities of the domestic industry, as well as the high share of service industries, the key driver of consumption in the domestic energy market, with a share of over 40 % of total energy consumption is the consumption in buildings (mainly residential buildings). Energy consumption in buildings is followed by the consumption of energy in transportation and after that in industry.

In the last several years, the relevant ministries and individual public institutions (EPEEF, HBOR) have begun implementing active measures to support energy efficiency projects in the buildings, transportation and industry sectors, however, the results so far have been relatively limited. The use of renewable energy in transportation is at its lowest levels in comparison with other EU members. Further to the above mentioned and given the importance of energy efficiency for the achievement of

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<sup>18</sup> EIHP: Green book – Analysis and background for the elaboration of the energy strategy of the Republic of Croatia.

appropriate national and EU targets, improvements and development of new promotional measures are necessary in the coming period.

The third important area of long-term sustainable economic development is the area of environmental protection. The Croatian economy, particularly tourism, agriculture and fisheries (and related industries) depend on sustainable management of natural resources. To improve biodiversity, green infrastructure in the urban environment and to reduce pollution, measures for environmental protection and biodiversity need to be strengthened. As previously described in the Strategic goal of balanced rural and urban development, the Republic of Croatia has great needs for stronger investment in economic, communal and social infrastructure. The development of infrastructure in cooperation with relevant public institutions and units of regional and local government is a precondition for more efficient environmental protection and the development of a sustainable circular economy.

Seismic activity, which has intensified in the Republic of Croatia since 2020, has raised the awareness of the need to strengthen resilience to natural disasters. Reconstruction of buildings after earthquakes and seismic strengthening of buildings in the areas that are seismically more active are necessary for the safety of citizens, preservation of the economy, sustainable development and protection of cultural heritage.

HBOR has already recognised the role of the financial sector in promoting and implementing projects that contribute to the development of green economy. Additional funds have been provided in cooperation with the relevant ministries and public institutions in the development of new financial instruments from EU funds. In addition to the existing financial support instruments for green projects, HBOR develops models of investment platforms as well as platforms for the development of technical assistance services in the project preparation (NCFE – Natural Capital Finance Facility, ELENA, etc.) independently or in cooperation with other public institutions. HBOR provides significant support for the development of these projects through successful cooperation with international financial institutions (EIB, CEB, IBRD, etc.) and national promotional banks.

Taking into account the above described needs for investment in the projects of renewable energy sources, energy efficiency and environmental protection, the experience and available resources of HBOR so far, cooperation with special financial institutions, as well as expected future national and EU funds targeted to this area, **one of the strategic goals of HBOR in the next five-year period will be the promotion of climate and energy neutral economy through energy efficiency, renewable energy sources and environmental protection.**

#### 3.1.5.2 Key strategic initiatives

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The goal of all the initiatives is to enhance HBOR's position in meeting the targets set by the European Commission, UN's 2030 Agenda for Sustainable Development and the latest climate targets related to limiting global warming set by the Paris Agreement and raising awareness of public and private entities about investments in projects promoting climate and energy neutral economy through energy efficiency, renewables and environmental protection.

**Strategic initiative 1 – Encourage stronger cooperation with relevant stakeholders and promoting HBOR's role in the development of green economy**

In order to successfully implement its strategic goal, HBOR will in the forthcoming period endeavour to:

- *Strengthen cooperation with relevant representatives such as ministries, the Environmental Protection and Energy Efficiency Fund, regional development and energy agencies in order to raise awareness for investments promoting climate and energy neutral economy among all stakeholders in the market*
- *Position HBOR as a development bank promoting climate and energy neutral economy,*
- *Raise awareness among private and public entities about investments in clean and fair energy transition, green investments and circular economy through education, conferences and other public events*
- *Promote energy efficiency in the building sector (including residential sector), transportation and industry.*

**Strategic initiative 2 – Enhancement of existing and development of new products for encouraging investment activities promoting climate and energy neutral economy through energy efficiency, renewables and environmental protection and strengthening resilience to natural disasters**

In addition to the considerable EU funds expected and the current, but also the announced future EU policy on promoting investments in the green economy, HBOR will in the forthcoming five-year period put additional efforts on the development of innovative financial instruments from its own funds, the available EU funds (centralized and decentralized) as well as other national sources.

The development of new innovative financial products and services as well as of the energy efficiency market is one of the key preconditions for encouraging private sector investments in projects promoting climate and energy neutral economy through energy efficiency, renewable energy sources and environmental protection. As stated above, HBOR develops, independently or in cooperation with other public institutions, models of investment platforms as well as platforms for the development of technical assistance services in the project preparation (NCFE, ELENA etc.).

Financial products that contribute to the resilience to natural disasters, including seismic strengthening of buildings combined with energy efficiency, shall additionally contribute to this goal.

In order to ensure adequate distribution of funds available to private sector and encourage the development of domestic financial sector, it is necessary to strengthen the cooperation with commercial banks, leasing companies and other participants of the financial market in order to encourage investments in energy efficiency, renewable energy resources and environmental protection.

**Strategic initiative 3 – Development of internal capacities and competences of HBOR in the field of climate and energy neutral economy through energy efficiency, renewables and environmental protection**

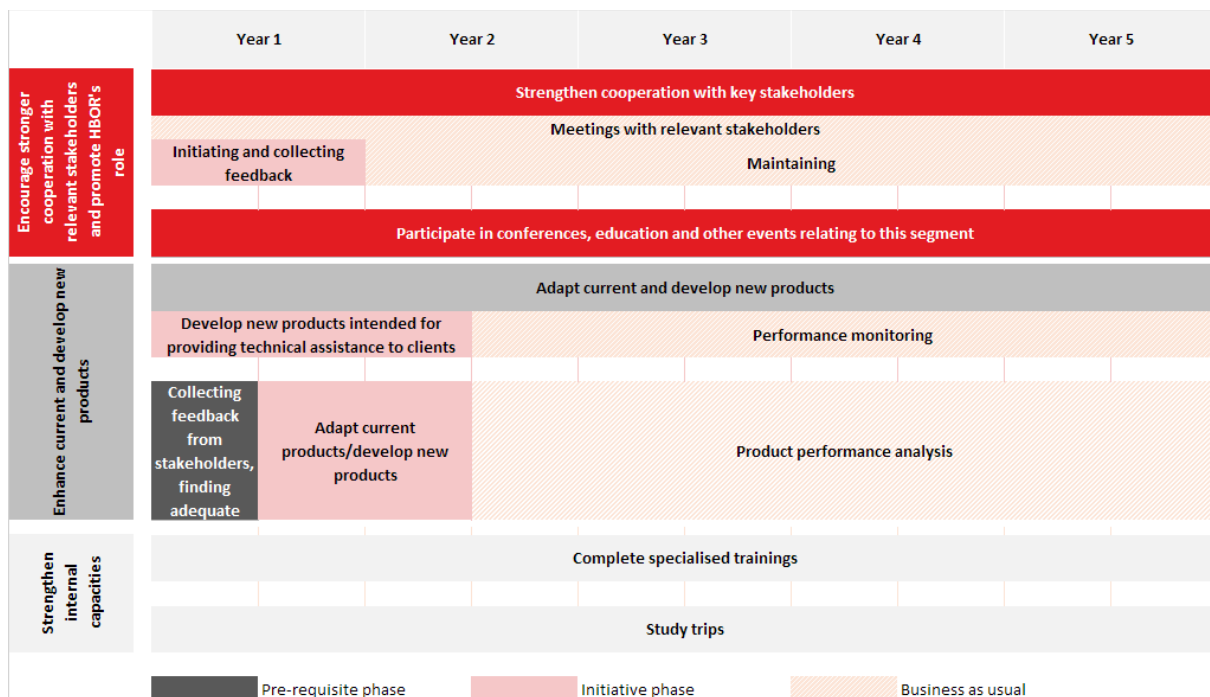
The basic precondition for stronger support for a climate and energy neutral economy is the existence of adequate internal capacities and competences of HBOR. Despite the existence of specialised organisational units for project financing, as well as for cooperation with various economic entities, improvements and development of HBOR's internal capacities are needed.

Further to the above mentioned, in the next five-year period, HBOR plans to put additional efforts in:

- Strengthening of HBOR's human and organisational capacities in the areas of investment in energy efficiency, renewable energy sources and environmental protection,
- Strengthening the competences of employees in charge – education and training of employees and use of consultancy services from available national, international and EU funds for the purpose of preparation of market, financial, technical, legal and other specialised reports,
- Launching of initiatives for cooperation and development of common ideas on investment areas with development banks from other countries and various associations and organisations of which HBOR is a member.

### 3.1.5.3 Prioritisation and timing

Figure 7: Five-year action plan – Promote climate and energy neutral economy through energy efficiency, renewables and environmental protection



### 3.1.5.4 Target market and planned sources of finance

**Target market:**

- Micro, small, medium, mid-cap companies and large companies investing in projects of climate and energy neutral economy through energy efficiency, renewable energy sources and environmental protection
- Public entities, units of local and regional government and companies (institutions) owned by them, other public enterprises and institutions whose projects and activities are focused on the development of essential infrastructure
- Natural persons in the field of the initiative to promote activities focused on energy efficiency and environmental protection.

**Key sources of finance for the activities necessary for the realisation of the Strategic goal:**

- Available HBOR funds
- EU funds (centralised and decentralised)
- Other nationally available funds.

## 3.2 Strategic enablers

### 3.2.1 Proactive and efficient use of EU funds, national sources and sources of international financial institutions

#### 3.2.1.1 Rationale

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One of the key preconditions for fulfilling HBOR's vision as spark of innovation and sustainable growth of the Croatian economy is to provide adequate sources of finance to support the strategic goals outlined in the previous chapter. Available HBOR's own resources, domestic and international sources of funding and EU funds are the starting point for HBOR's future sustainable operations, as well as for the successful achievement of strategic goals.

Since its establishment, HBOR has been fostering strong cooperation with relevant ministries and government bodies and has become one of the key institutions in utilisation of available national funds for supporting strategic niches of the Republic of Croatia.

In addition to HBOR's own funds, the most important source of HBOR's finance results from HBOR's long-term successful cooperation with multilateral financial institutions such as EIB, CEB, IBRD etc. By creating special loan programmes, HBOR transfers favourable terms and conditions of its financing to small and medium enterprises, mid-cap companies, exporters, LRGUs and particularly sensitive niches in the economy such as youth and female entrepreneurship, start-ups etc.

HBOR started proactively to support the use and utilisation of EU funds in Croatia already in 2007, and since Croatia became an EU member state, a strong emphasis has been put on the use of EU funds. In cooperation with commercial banks, HBOR has significantly contributed to the development of the financial market in Croatia by approving special credit lines intended to support public and private sector investments co-financed by EU grants. Moreover, EU funds have been main catalyser of public investment, influencing also large private investments, primarily by SMEs, hence contributing significantly to the growth and development of the Croatian economy.

Along the support to final beneficiaries in utilising the available EU funds, HBOR has been very active in managing and implementing financial instruments (FIs) since 2016, when the first agreement with the managing authority was signed. Relevant managing authorities (Ministry of Regional Development and EU Funds and the Ministry of Agriculture) have recognised HBOR's role and expertise in managing financial instruments and nominated HBOR as the fund of funds and the body that implements financial instruments for altogether five financial instruments:

- *ESIF Growth and Expansion Loans*
- *ESIF Loans for Energy Efficiency in Public Sector Buildings*
- *ESIF Energy Efficiency in Public Sector Buildings*
- *Investment Loans for Rural Development*
- *ESIF Loans for Energy Efficiency for Private Companies.*

According to the European Commission's announcements, in the MFF 2021 – 2027, the European Commission plans to allocate a larger amount of funds for the development and implementation of financial instruments that, as opposed to the system of grants so far, should allow for a more efficient

use of limited sources of EU funds. According to the information available at the time of preparing this document, EU funds will be channelled into several key areas in the next financial framework:

- *Promoting innovation and smart economic transformation of the EU*
- *Promoting the transition to clean and fair energy, green investments, circular economy, adaptation to climate change and managing the risk of its prevention*
- *Promoting the enhancement of ICT mobility and regional integration*
- *Promoting Europe with a more prominent social component*
- *Promoting sustainable and integrated development of urban, rural and coastal areas and local initiatives.*

Considering HBOR's strategic goals, it is evident that HBOR's new strategy is largely aligned with the strategic guidelines of the new MFF 2021 – 2027.

In response to the COVID-19 pandemic and the need for stronger investment in recovery and future resilience of the economy, the EU has encouraged the development of new initiatives. In addition to the funds available under the MFF 2021-2027, the EU is developing a new model to stimulate the recovery and resilience of the economy through the EU's next generation initiative, primarily through the RRF. Also, HBOR has at its disposal the funds of EU member states under the Pan-European Guarantee Fund managed by the EIB. Although EU funds are an indispensable source of current, as well as future funding, the limited availability of these funds in terms of volume and financing of HBOR's individual strategic goals (such as stronger internationalisation of the domestic economy, support to mid-cap and large companies) imposes the necessary provision of additional national sources of co-financing HBOR's activities. In order to ensure long-term financial sustainability of HBOR, it is necessary to support the relevant ministries to monitor specific niches with a higher risk level which are at the same time strategically important for the Republic of Croatia.

#### 3.2.1.2 Key strategic initiatives

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In the context of the use of the EU funds and alternative sources of finance, HBOR should take a proactive role in the following key strategic initiatives:

##### **Strategic initiative 1 – Strengthening the role of HBOR in the development and implementation of products and services from national funds and the EU funds available (allocated) at national level**

HBOR has recognised in time the importance of financial instruments from cohesion funds (ESIF financial instruments and financial instruments) for promoting investments and economic development in the public and private sectors by establishing a specialised organisational unit for EU funds and financial instruments, which is specialised for the overall process of development and implementation of financial instruments (including legal and economic aspects of implementation, public and legal aspects, monitoring and reporting, state aid etc.).

Also, valuable contacts with relevant stakeholders in the management and implementation of EU funds have been established, thus facilitating the financial instruments' operational implementation. In this way, HBOR began profiling as a competence centre for the development and implementation of the financial instruments. Taking into consideration the above described role, HBOR should in the



upcoming MFF play a proactive and valuable role in the development of new national operating programmes as a basis for utilisation of EU funds on the national level.

According to the European Commission's announcements, in the MFF 2021-2027, a large amount of funds is planned to be allocated for the implementation of FIs (as opposed to grants) than in the previous multiannual financial framework. HBOR should put its best efforts to retain and further expand its role in this context as well as strengthen its capacities to further develop the role of a centre of excellence in managing ESIF financial instruments.

In order to ensure a stronger system of financing private and public investments, HBOR will in the forthcoming period focus on:

- *Cooperation with relevant ministries and agencies in designing of the future national operating programmes and other strategic documents for the utilisation of the EU funds*
- *Enhancing of existing and encouraging the development of new forms of financial instruments (debt instruments, guarantees, private equity) from the EU funds intended for different target groups and sectors*
- *Enhancing of existing and encouraging the development of new forms of financial instruments (debt instruments, guarantees, private equity) from national sources of funds in the fields not covered by the activities of the EU funds or where the available EU funds do not meet the market needs.*

## **Strategic initiative 2 – Utilisation of centralised EU funds and international programmes and initiatives**

Alongside the utilisation of available EU funds allocated at national level, HBOR should encourage further testing and development of special financing arrangements with the European Commission, EU financial institutions such as the EIB Group as well as other international financial institutions and national promotional banks. Whilst EIB remains HBOR's most important partner in terms of providing funding, the importance of partnership with EIB and EIF and other international financial institutions and national promotional banks grows significantly in terms of using of their specialised funding arrangements, i.e. grant arrangements, loans, guarantees and private equity products. Such special financial arrangements, if used effectively, could generate great results for the economy and SMEs in an overall effort to safeguard the regional and the national development.

In order to strengthen and expand its relationship with the EIB Group and other international financial institutions and national promotional banks in the field of special financial arrangements, programmes and initiatives, HBOR will in the forthcoming five-year period:

- *Enhance cooperation with the European Commission, EIB Group and other international financial institutions and national promotional banks in order to proactively develop special financing arrangements that would enable the achievement of strategic goals*
- *Encourage the testing and development of alternative sources of financing, such as equity and quasi-equity investments, risk-sharing instruments in cooperation with the European Commission, EIB Group and international financial institutions and national promotional banks*
- *Successfully complete the assessment of HBOR's capacities and competences for the implementation of InvestEU programme (Pillar assessment)*
- *Successfully implement new product/products within the InvestEU programme*
- *Utilise the funds of SRSP for the purpose of enhancing business processes of HBOR.*

### **Strategic initiative 3 – Further enhancement of EU desk services for EU fund beneficiaries**

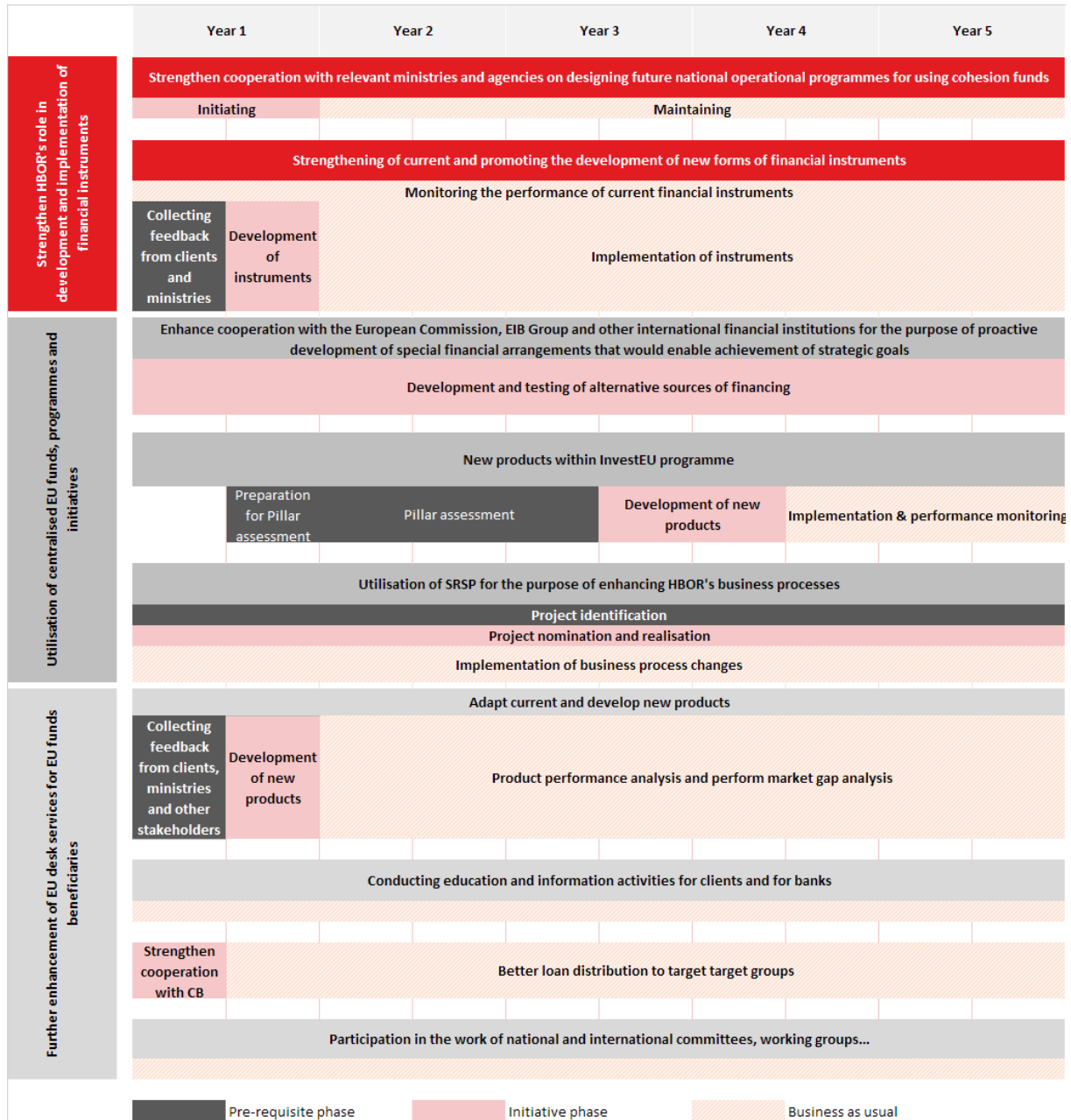
As previously mentioned, since 2007 HBOR has been very active in supporting EU grants beneficiaries, both private and public. While primarily providing with the financial assistance through specialised loan programmes intended for EU grant beneficiaries, HBOR's informative and educational role in this context is also very important and should be additionally strengthened in the future.

Taking into account the above mentioned, HBOR will in the forthcoming period, for the purpose of providing necessary support to EU grant beneficiaries:

- *Establish and update a specialised set of products or more tailored terms and conditions of finance within the framework of the existing products for beneficiaries of EU funds*
- *Organise and conduct information activities (workshops, conferences) in cooperation with state administration bodies, commercial banks, Croatian Chamber of Economy, Croatian Chamber of Crafts, Croatian Employers' Association, development agencies and others*
- *Enhance cooperation with commercial banks (directly with the EU desk of commercial banks and through work in the Croatian Banking Association Committee on EU Funds)*
- *Organise education for banks' employees that are directly involved in the financing of EU projects beneficiaries*
- *Participate in the work of national and international committees, working groups, organisations, associations and other legal entities associated with the EU issue.*

3.2.1.3 Prioritising and timing

Figure 8: Five-year action plan – Proactive and efficient use of EU funds, national sources and sources of international financial institutions



#### 3.2.1.4 Target beneficiaries and planned sources of finance

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**Target beneficiaries:**

- Micro, small, medium and mid-cap companies
- Units of local and regional government and companies (institutions) owned by them
- HBOR.

**Key sources of finance for the activities necessary for the realisation of the Strategic enabler:**

- Available sources of HBOR
- EU funds (centralised and decentralised)
- Other nationally available funds
- International financial institutions
- Capital market.

## 3.2.2 Cooperation with financial intermediaries, relevant ministries and miscellaneous entities in the economy and society

### 3.2.2.1 Rationale

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HBOR as an organisation has a unique, pivotal role in promoting the Croatian economy. Having such a responsible role in the society, HBOR should act as connecting point between various national and international sources of funds and the end beneficiaries.

#### **Domestic cooperation**

In order to ensure successful distribution of available funds to final beneficiaries, as well as to contribute to the long-term development of the domestic financial market, since its establishment HBOR has been successfully cooperating with domestic financial institutions – banks, leasing companies and management companies for alternative sources of finance as well as other participants in the financial market of the Republic of Croatia. Domestic financial institutions are one of the key, indispensable partners in fulfilling HBOR's role in the balanced development of the Croatian economy.

Having in mind recent developments on the market, excess liquidity on the money and capital market, but also the aversion towards more risky segments of the economy due to the recent financial crisis, HBOR has in recent years adapted its cooperation with financial intermediaries (banks and leasing companies) by offering more preferential terms of financing through utilisation of sources of funds of international financial institutions or EU funds (e.g. ESIF). In this way, HBOR leveraged the available public sources with private sources (sources of commercial banks, leasing companies etc). By further strengthening existing cooperation with financial institutions in the domestic market, utilising their networks and developing new products, the development of the financial market and the economy as a whole will be ensured. In the forthcoming five-year period, special emphasis will be on strengthening cooperation with commercial banks, leasing companies and other participants in the support to private sector. Special emphasis will be put on the development of more flexible and simple models of cooperation such as:

- *Framework credit lines for small and medium enterprises (and other target groups to which broader distribution channels need to be provided)*
- *Development of possible risk sharing portfolio models*
- *Development of risk-sharing models for individual transactions of large investment projects, project financing, financial restructuring of entities etc.*
- *Development of cooperation with leasing companies and other financial market entities.*

A prerequisite for timely identification of current and future economic and social needs of the development of the Republic of Croatia based on a higher degree of innovation, research and development is successful cooperation with relevant ministries, other state-owned entities and

institutions<sup>19</sup>, entrepreneurs' associations and their members<sup>20</sup>, NGOs, entrepreneurs, entrepreneurs' associations, chambers, units of local and regional government, scientific community and others.

### **International cooperation**

Alongside the strengthening of cooperation with relevant institutions in the domestic market, taking into account its export promotion role as well as the expected stronger utilisation of available international funds, HBOR should remain an active player in international relations. Additionally, HBOR's ambition should be to get further involved in the EU policy processes by evaluation of new initiatives, regulations, directives, laws, and legislation process. Having the necessary mechanisms and information through its membership in European and international associations is becoming ever more important for promotional banks in EU countries.

HBOR is an active member of international associations that aim to improve financing various spheres of the economy and improve access to finance without distorting the markets but rather complimenting and stimulating them.

International Cooperation represents and promotes HBOR's interests in bilateral and multilateral organisations, associations and initiatives. HBOR is a member and an active participant of the following organisations:

- European Association of Public Banks (EAPB)
- Berne Union (BU)
- International Development Finance Club (IDFC)
- European Association of Long-Term Investors (ELTI)
- Network of European Financial Institutions for SMEs (NEFI)
- Banking Association for Central and Eastern Europe (BACEE)
- The China-CEEC Inter-Bank Association.

HBOR's membership in these associations is of the utmost importance as it enables us to actively communicate with experts from other financial institutions and to share information, knowledge and experience in specific fields.

HBOR also develops strong bilateral international cooperation with several multilateral EU and global institutions: CEB, EBRD, EIB Group, OECD etc. HBOR has signed cooperation agreements with over 55 different export credit agencies, export banks, development banks and other international financial institutions worldwide. These cooperation agreements provide HBOR with even more active cooperation and communication with financial institutions on specific topics and issues.

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<sup>19</sup> Cooperation with relevant organisations is more specifically described within each of the strategic goals. Some of the relevant state-owned entities and institutions are:

- HAMAG-BICRO – in the field of supporting SMEs
- Croatian Waters – in the field of supporting environment protection in water supply and water collection
- FZOEU – in the field of supporting environment protection, energy efficiency and renewable energy resources
- APN – in the field of supporting social housing
- Universities and science institutions in the field of RDI and other relevant field of action (agriculture, industry, IT sector, energy efficiency etc.).

<sup>20</sup> Cooperation with relevant organisations is more specifically described within each of the strategic goals. Some of the relevant organisations are: Croatian Chamber of Economy, Croatian Association of Employers, Croatian Chamber of Crafts, Croatian exporters etc.

HBOR has established respectful and enriching cooperation with the Ministry of Foreign and European Affairs and is an important facilitator of Croatian Government's foreign economic activity in multilateral and bilateral aspect. It is of utmost importance to make this collaboration and participation stronger and stronger.

Fostering bilateral and multilateral international cooperation with national, EU and global partners is one of the key prerequisites in achieving strategic goals and utilising strategic enablers. This cooperation is not only important for HBOR sustainable financing, but also for building HBOR's internal capacities needed to efficiently support toward realization of strategic goals.

### 3.2.2.2 Key strategic initiatives

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#### **Strategic initiative 1 – Encourage stronger cooperation with domestic financial intermediaries, relevant ministries and other economic entities and associations**

The recent financial crisis has reduced the appetite for more risky segments, so that these needs remained unmet. HBOR's unique position in the market could be further emphasised by making HBOR the central point of knowledge on special market niches (such as export and trade finance, EU funds, energy efficiency etc.).

HBOR will, in cooperation with relevant ministries and miscellaneous entities, address the existing socio-economic issues that are affecting the market, while safeguarding on its own financial sustainability at all time. We believe that strengthening these relationships will help HBOR positioning itself as the key financial institution for supporting key pillars of national development as well the key pillars of this proposal.

In the forthcoming five-year period, HBOR will, within the framework of this strategic initiative, put focus on:

- *Continued collection of feedback from companies looking for sources of finance in order to provide support to each of the strategic goals (market research)*
- *Continued collection of feedback from relevant ministries about funding sources targeting needs of public and private sector clients that should enable achievement of each of strategic goals*
- *Meetings with relevant stakeholders for the purpose of identifying projects and/or activities that can be supported and financed by HBOR and with the purpose of fostering development of the Croatian economy and achievement of strategic goals*
- *Organising community events for awareness generation, dissemination of best practices, networking and presenting the results of HBOR's activities*
- *Initiating loan and guarantee products promoting development of the Croatian economy (both public and private sector clients) supported by the state and relevant ministries through the provision of national sources of finance.*

#### **Strategic initiative 2 – Encourage stronger bilateral and multilateral cooperation with stakeholders important for international cooperation**

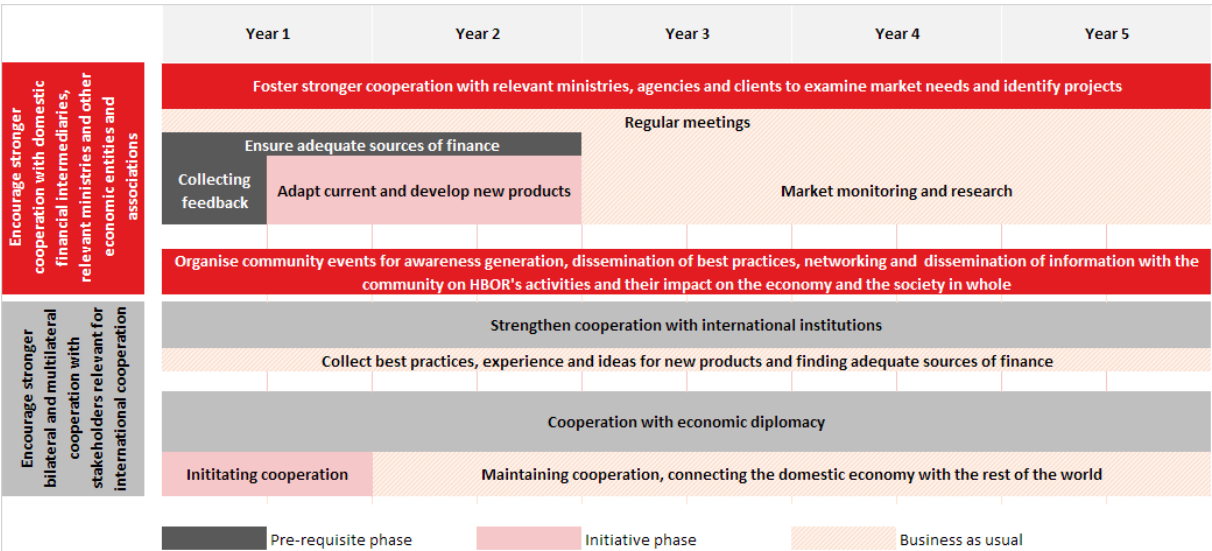
The establishment of close cooperation with key domestic stakeholders relevant for Croatian foreign economic policy as well as with the international stakeholders is necessary in order for HBOR to keep its financial self-sustainability in supporting development of the Croatian economy, but also acquiring knowledge and best practices that can be implemented in the Croatian economy.

In this respect, HBOR will focus on:

- *Fostering stronger cooperation with national, EU and multinational (multilateral) institutions (national promotional banks and institutions, CEB, EIB Group, EBRD, IBRD, etc.)*
- *Supporting economic diplomacy by participating in economic (business) delegations etc.*
- *Ensuring attractive financing opportunities for Croatian enterprises by emphasising utilisation of EU and national funds and cooperation with other financial institutions (banks and leasing companies)*
- *Ensuring attractive financing opportunities for public and private clients.*

3.2.2.3 Prioritising and timing

Figure 9: Five-year action plan – Cooperation with financial intermediaries, relevant ministries and other entities in the economy and society



3.2.2.4 Target beneficiaries and planned sources of finance

**Target beneficiaries:**

- HBOR
- Financial intermediaries
- Micro, small, medium and mid-cap enterprises
- Units of local and regional government and companies owned by them
- Ministries, particularly the Ministry of Foreign and European Affairs.

**Key sources of finance for the activities necessary for the realisation of the Strategic enabler:**

- HBOR



- EU funds.

### 3.2.3 Flexible and sustainable organisation with proactive business approach

#### 3.2.3.1 Rationale

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A key prerequisite for successful achievement of strategic goals is the establishment of a proactive and flexible business system. In order to make use of available funds and internal resources as efficiently as possible, while retaining financial stability, alignment of HBOR's internal procedures, processes and actions with the best practices in the areas in which it operates are necessary. This will enable the organisation to respond more quickly and flexibly to the current and future development needs of the Republic of Croatia.

Taking this into account, it is necessary to focus on the following elements over the next five-year period:

1. Strategy
2. Processes and organisation
3. Risk management
4. IT and IT security.

#### **Strategic initiative 1 – Establishment of strategic planning**

Only an organisation that knows its strategic goal can ultimately measure the success of its operations. In order for HBOR to operate in accordance with this Strategy, the following is necessary:

- *Development of an operating plan resulting from the Strategy*
- *Development of financial plans based on operating and strategic documents*
- *Frequent analysis of market gaps and shortcomings*
- *Development of a reporting system on the impact of HBOR's activities on the overall development of the Republic of Croatia*
- *Product quality analysis*
- *Defining KPIs and redefining the system of rewarding*
- *Continuous education of employees in the areas that are important for the achievement of strategic goals*
- *Strengthening the institutional capacities of HBOR*
- *Systematic reporting on the implementation of the operating plan*
- *Systematic reporting on the implementation of the strategic plan*
- *Revising the strategic plan in line with market changes.*

#### **Strategic initiative 2 – Adjustment of processes and organisational structure**

In order for HBOR to become a flexible and sustainable organisation with a proactive business approach, it is necessary to change certain processes and adapt the organisational structure to the enhanced business model.

The activities that HBOR will carry out in the future will be:

- *Documenting and/or updating key processes and identifying areas for process improvement*

- *Developing a decision matrix and delegating the decision-making authority to lower level*
- *Shortening the process of loan processing and decision-making*
- *Separating activities of direct cooperation with clients and back office tasks*
- *Improving the reporting system*
- *Centralising the function for the development, introduction and monitoring of new products, changes and projects*
- *Improving the function and process of exchange of information with national and international partners and stakeholders (relevant ministries, institutions etc.)*
- *Adapting the organisational structure to good banking practices, taking into account the specific features of HBOR as state development and export bank.*

### **Strategic initiative 3 – Strengthening risk management**

Adequate risk management is a key prerequisite for maintaining the financial stability of each institution, especially the financial one. While fulfilling their role of developing the economy and promoting the development of certain market niches, development banks assume significant risks compared to commercial banks, which makes risk management even more challenging. HBOR has received funding under SRSP for consultancy services for the project of developing new *rating* and *scoring* system. The project is expected to be completed by the end of 2020.

In the coming period, HBOR will focus in particular on the area of strengthening risk management on:

- *Reviewing HBOR’s risk management strategy and determining strategic risk appetites*
- *Developing new risk management models*
- *Strengthening internal capacities*
- *Harmonising risk management with good banking practices and regulations applicable to HBOR*
- *Assessing risk of new products and business changes*
- *Strengthening risk awareness and risk culture at all levels.*

### **Strategic initiative 4 – Improving information system and IT security**

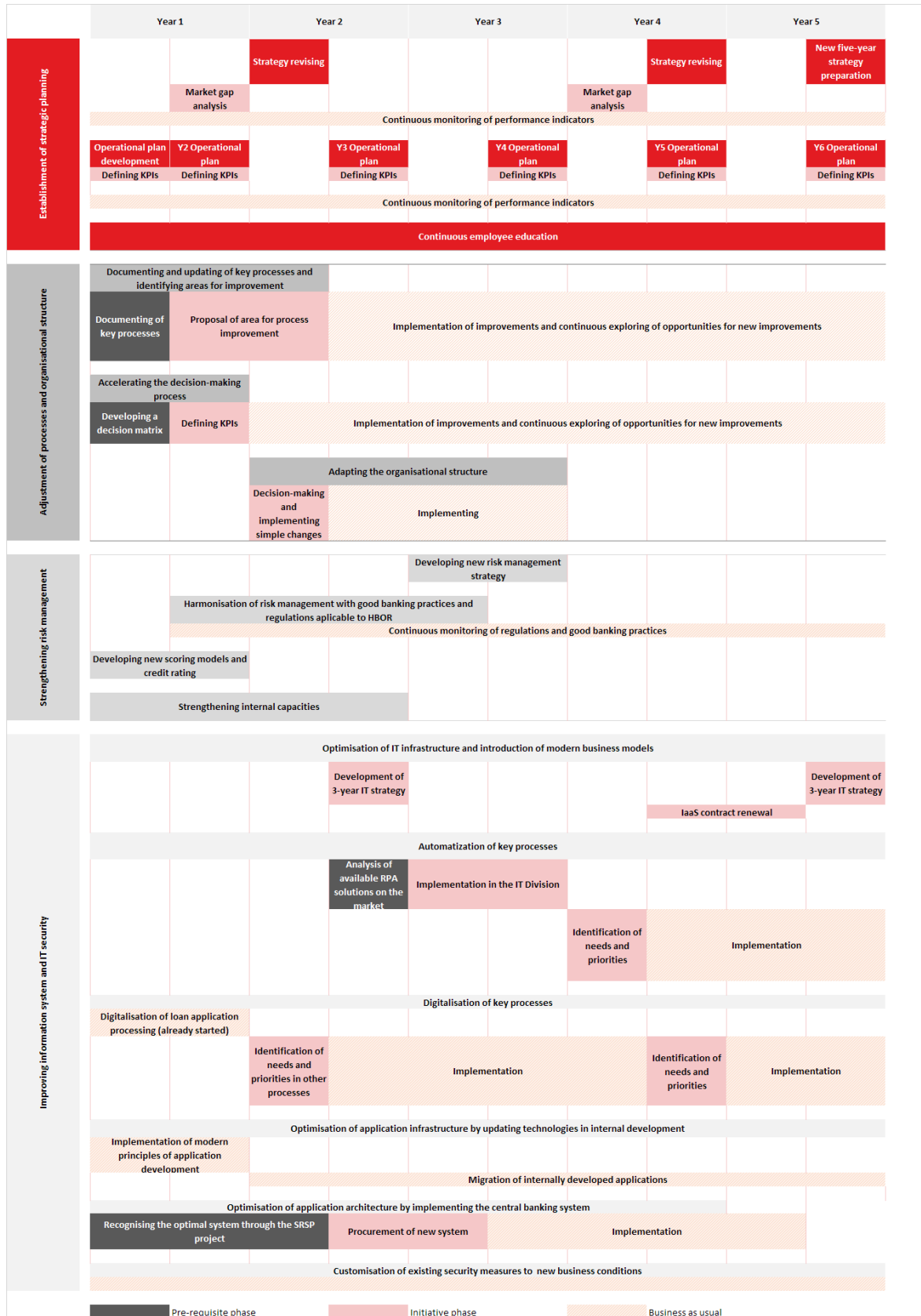
Acceleration of business processes is almost unthinkable without the support of information technology, while taking care of information system security. The major part of the improvement of HBOR’s information system will be the procurement of a new central banking system. The new system must meet HBOR’s established technological network, but more importantly, it must meet the principles of stability, adaptability, security and manageability in real time. HBOR received funds under SRSP for consultancy services for the project of developing technical specification of the new banking system.

Considering the importance of this segment, HBOR will carry out the following activities in the coming period:

- *Optimisation of IT infrastructure and introduction of modern business models*
- *Automatization of key business processes*
- *Digitalisation of key business processes*
- *Optimisation of application architecture by updating technologies in internal development*
- *Optimisation of the application architecture by implementing the central banking system*
- *Adaptation of existing security measures to new business conditions.*

### 3.2.3.2 Prioritising and timing

Figure 10: Five-year action plan – Flexible and sustainable organisation with proactive business approach



### 3.2.3.3 Target beneficiaries and planned sources of finance

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**Target beneficiaries:**

- HBOR's employees
- HBOR's stakeholders (Government of the Republic of Croatia, public and private entities, commercial banks etc.).

**Key sources of finance for the activities necessary for the realisation of the Strategic enabler:**

- European Commission within the Structural Reforms Support Programme
- EIB Advisory Hub
- Available sources of HBOR
- EU funds (centralised and decentralised)
- Other nationally available funds.

# 4 Strategic Action Plan

This chapter provides a comprehensive overview of key strategic initiatives in the period of 5 years.

Figure 11: Strategic action plan

